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ONTARIO ENERGY BOARD



ANNUAL REPORT

Year ending December 31, 1973



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Ministry of
Energy

416/965-4286

Queen's Park
Toronto Ontario

June 11, 1974

TO THE HONOURABLE PAULINE M. MCGIBBON
O.C., B.A., LL.D., D.U. (OTT.)

Lieutenant-Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the Fourteenth
Annual Report of the Ontario Energy Board for
the year ending December 31, 1973.

Respectfully submitted

W. Darcy McKeough
Minister



f the
an
Ontario
Energy
Board

416/965-6078

9th Floor
14 Carlton Street
Toronto Ontario
M5B 1K5

April 22, 1974

Honourable W. Darcy McKeough
Minister of Energy
12th Floor
56 Wellesley Street West
Toronto, Ontario.

Dear Mr. McKeough:

I have the honour to present herewith the
Annual Report of the Ontario Energy Board for the
calendar year 1973.

Respectfully submitted,

S. W. Clarkson
Chairman

FOURTEENTH ANNUAL REPORT

OF THE

ONTARIO ENERGY BOARD

YEAR ENDING DECEMBER 31, 1973

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ONTARIO ENERGY BOARD

W. W. STEVENSON
Member

S. J. WYCHOWANEC
Member

W. D. R. ELDON
Member

D. M. TREADGOLD
Member

J. A. W. WHITEACRE
Member

A. B. JACKSON
Vice-Chairman

S. W. CLARKSON
Chairman

I. C. MacNABB
Vice-Chairman

Absent: A. J. G. LEIGHTON
Member

1973 ANNUAL REPORT

Introduction

The activities of the Board in 1973 reflected the energy problems and energy issues which became prominent in Canada during the year. The issues included price increases and possible supply shortages for natural gas. In addition, the Board's areas of responsibility were broadened to include a review of all proposed increases in the price of electricity.

[With respect to natural gas, the developments most directly affecting the Board were the increases in prices charged to Ontario distributors by TransCanada PipeLines Limited. These price increases led to applications to the Ontario Energy Board by the distributors for increases in their rates. Except for relatively small amounts of gas purchased in southwestern Ontario and small amounts imported from the United States by Union Gas Limited, all the natural gas sold in Ontario is gas transmitted from Western Canada by TransCanada PipeLines Limited and either sold by that company to the Ontario distributors or sold to the larger distributors for re-sale to the smaller ones.]

[With respect to Ontario Hydro, the legislation giving the Board powers of review of rates and rate-related matters, and the initial reference to the Board from the Minister were among the important consequences of an extended and comprehensive study of energy matters by the government.]

On June 7, the Premier announced the establishment of the Ministry of Energy to include the Ontario Energy Board. Accordingly, following approval of the legislation, the Ontario Energy Board transferred its reporting relationship from the Ministry of Natural Resources to the new Ministry of Energy.

[At the same time, several further amendments to the Ontario Energy Board Act were passed by the Legislature. The most important of these made provision for the appointment of additional Board members. Other amendments made provision for natural gas rate increases under certain circumstances to be considered by the Board without determination of the rate base of the applicant company.]

FUNCTIONS OF THE BOARD

[The Ontario Energy Board was established in 1960 as the successor to the Ontario Fuel Board, with the primary function of regulating the transmission, storage, distribution and sale of gas in the Province, and with certain limited additional functions in the energy field. As of the early part of 1973, i.e., before amending legislation that is reviewed briefly in this report, the major functions of the Board were as follows:

a) [Under The Ontario Energy Board Act

Approving and fixing the rates and charges for the sale, transmission, distribution and storage of gas in the Province.

Ensuring compliance by gas companies with the Uniform System of Accounts for Gas Utilities.

Granting leave to construct transmission pipe lines, production lines, distribution lines and stations.

Granting authority to expropriate land for pipe lines and stations.

Recommending the designation of lands as gas storage areas and reporting on applications for permits to drill wells in such areas.

Authorizing gas storage operations in designated gas storage areas.

Requiring and regulating the joining of interests in gas or oil pools, and apportioning the benefits of operation therein.

Hearing and reporting to the Lieutenant Governor in Council on proposals of gas companies to sell their systems, amalgamate with other companies, or acquire shares of other gas companies.

Examining and reporting on any matters pertaining to energy referred to the Board by the Lieutenant Governor in Council.]

b) Under The Municipal Franchise Act

Approving terms and conditions of municipal gas franchise agreements, renewing or extending expired gas franchises or denying renewals or extensions if not in the public interest.

Granting certificates of public convenience and necessity for the supply and distribution of gas in municipalities.

c) Under The Petroleum Resources Act, 1971

Examining and reporting on certain matters referred to the Board by the Minister of Natural Resources.

d) Under The Public Utilities Act

Controlling gas companies that contravene municipal by-laws prohibiting the distribution and sale of gas containing sulphuretted hydrogen.

e) Under The Assessment Act

Classifying certain pipe lines for assessment purposes.

During 1973, by an amendment of The Ontario Energy Board Act, the Board was made responsible for annual reviews of rate changes proposed by Ontario Hydro and for such other matters affecting or related to the rates or charges of Ontario Hydro as the Minister of Energy may refer to the Board for investigation, examination and report.

COMPOSITION OF THE BOARD

Following an amendment to The Energy Board Act, several new members were appointed to the Board. At year end, the Board consisted of nine members, including the chairman and two vice-chairmen. Six of the nine serve as full-time members.

S. W. CLARKSON, Chairman
A. B. JACKSON, Q.C., Vice-Chairman
I. C. MacNABB, P.Eng., Vice-Chairman
W. D. R. ELDON, Ph.D., Member
W. W. STEVENSON, Ph.D., Member
MISS S. J. WYCHOWANEC, Q.C., Member
* A. J. G. LEIGHTON, P.Eng., Member
* D. M. TREADGOLD, Q.C., Member
* J. A. W. WHITEACRE, Q.C., Member

At the request of the chairman, a comprehensive review of the Ontario Energy Board was carried out by Management Services during the year. The recommendations of the report were adopted which resulted in some increase in staff and revisions to the existing organization structure. One significant change was the establishment of a new senior staff position, Director of Operations. This position was filled by year-end.

WORK OF THE BOARD

With minor exceptions, the Board is required to act as a quasi-judicial tribunal when an application is made to it. Notice of the application is given by the applicant in accordance

* Part-time

with the Rules of Procedure and the application is then set down for hearing by a panel assigned to the case by the chairman. Where the case is of local interest, e.g., pipeline construction or expropriation of pipeline easements, the hearings are held in the area affected. In 1973, hearings outside of Toronto were held at Sarnia, Chatham, St. Thomas, London and Windsor.]

[In all cases where an application is opposed and in some cases even where it is not opposed, the Board issues written reasons for its decisions and these are available on request from the Board Secretary. The Board's decisions are subject to appeal to the Court of Appeal on a question of law or jurisdiction and are also subject to review by the Lieutenant Governor in Council.]

[One appeal to the Courts was dealt with by the Court of Appeal in 1973. The Court upheld a decision of the Board authorizing the acquisition of a pipeline easement in the City of Windsor by Union Gas Limited from certain land-owners.]

Where the Board acts on a reference from the Lieutenant Governor in Council, the Minister of Energy or the Minister of Natural Resources, it must in most cases hold a public hearing and submit a report with its opinion. The most important reference during 1973 was a reference dated November 5, 1973 from the Minister of Energy respecting Ontario Hydro.

The three major distributors in Ontario applied during the year for rate relief as a result of the increasing cost to them of their natural gas supply. In response, the Board has been developing new procedures by which applications for rate increases can be handled expeditiously. Facing a similar situation, the National Energy Board announced new abbreviated hearing procedures to deal with rate requests brought on by higher natural gas prices. In the United States,

several jurisdictions make provision for automatic "tracking" of increased natural gas costs without a hearing. In Ontario, the system of individual contracts between the distributor and industrial customers usually achieves the same result. The applications for rate increases brought about by higher supply costs refer in the main therefore to residential customers.

During 1973, the Board received a total of 71 applications and references and held a total of 41 hearings of which 12 were outside Toronto. Brief reviews of the more important matters dealt with by the Board are set forth herein.

NATURAL GAS

Supply

During the first half of the year, several meetings were held with the distributing companies to review the matter of the supply of natural gas. The Board was requested by the government to hold talks with the companies to formulate plans for supply management in the event that a supply problem developed for the winter of 1973-74. The Board worked with officials of the Ontario Natural Gas Association and a report was forwarded on this matter during the summer. However, following a favourable decision by the Alberta Government concerning certain gas contracts, it became clear that the natural gas supply would be adequate for the winter heating season.

The possibility that the supply of natural gas may not be sufficient to meet the actual and potential demand from all customers, raises the question of allocation according to priority of end use. In recent years in the United States, many jurisdictions have established a priority system by which the available supply may be allocated should that be necessary.

Production

During December, an application was received from Union Gas Limited for an Order under section 24(c) of The Ontario Energy Board Act, requiring and regulating the joining of the various interests within the Dawn 4-28-3 Pool in Lambton County, for the purpose of drilling and operating wells for the production of gas. As of the close of the year, no action had been taken on this application.

As explained in the next section of this report, the Board, on a reference from the Minister of Natural Resources, recommended the granting of a permit to International Baslen Enterprises Limited to drill a well for gas production in an area adjoining the Bickford gas storage pool.

Storage

Union Gas Limited applied to the Board early in 1973 for an enlargement of the Bickford gas storage pool in the County of Lambton. The application stated that:

"In the course of development of the Bickford Pool for storage, Union Company has concluded that it is possible that some of the gas bearing portion of the Salina A1 formation may extend to the east beyond the existing easterly limit of the currently designated gas storage area known as the Bickford Pool with the result that additional lands to the east of the Bickford Pool should be designated as a gas storage area, with authority granted to Union Company as Operator of the Bickford Pool to inject, store and remove gas in and from such additional designated gas storage area."

The requested enlargement of the area would require a regulation designating the additional area for gas storage and an Order of the Board authorizing injection, storage and removal of gas by the Applicant. The application was heard at Sarnia on September 24 but prior to that time the Board received a reference from the Minister of Natural Resources requiring it to investigate an application of International Baslen Enterprises Limited for a permit to drill a well for gas in the area affected. The Board recommended the granting of the permit to International Baslen Enterprises Limited and reserved its decision on the application for enlargement of the Bickford gas storage pool pending completion of the Baslen well and evaluation of the results.

Upon a reference from the Minsiter of Natural Resources, the Board recommended the granting of permits to Tecumseh Gas Storage Limited to drill three wells in the Seckerton and Kimball-Colinville gas storage pools in Lambton County. The wells are part of a drilling program designed to develop deliverability in order to meet an increasing contractual storage commitment to The Consumers' Gas Company.

Pipe Lines

The Board held a hearing at Chatham on August 1 of an application of Union Gas Limited to construct its Chatham Loop Line, a project needed for the general up-grading of the transmission system in the vicinity of Chatham and requiring the expenditure of over \$2,000,000. The project called for various sizes of high-pressure pipe line up to 12 inches in diameter. Phase I, required for operation in 1973, was a proposed line from Union's high-pressure line at Dover Centre to the company's existing facilities in West Chatham and leave to construct this line was granted by the Board. Phase 2,

required for operation in 1974, was a line around Chatham to the north and east of the city and extending south to a connection with an existing 10 inch line a little north of Blenheim. The Board reserved its decision on Phase 2, pending consideration of a possible alternative route. The details with respect to both Phases, 1 and 2, are set forth in Reasons for Decision issued by the Board on August 28.

Leave was granted to The Consumers' Gas Company to construct approximately 24.5 miles of 6-inch diameter high pressure gas transmission pipe line from its existing facilities in the Town of Orangeville to an existing gate station in the vicinity of Kings' Highways 9 and 27. Rapid growth in the Town of Orangeville and the adjacent municipalities required that the existing 4-inch diameter line serving these areas be reinforced to ensure adequate supply to meet the new demands. This line will be laid within the limits of provincial highways and county and township roads.

Three other applications were received by the Board from Union Gas during the year and will be heard in 1974. One of these was for an Order authorizing leave to construct the first phase of looping with a 42-inch line the existing 26-inch and 34-inch Dawn-Trafalgar transmission system, from the Dawn compressor station to its Enniskillen valve site, a distance of approximately 10.8 miles. The second application requested leave to construct approximately 21 miles of 12-inch pipe line and related facilities required to reinforce the existing Owen Sound transmission line. The proposed location is north from the existing Dawn-Trafalgar transmission pipe lines and west of the cities of Kitchener and Waterloo to a point on the existing Owen Sound pipe line north of Waterloo. The third application requested leave to construct a new regulator

and metering station in the Town of Essex and sections of 4-inch and 6-inch distribution lines to connect the new station to the existing distribution system.

In addition to the above projects, easement acquisition and construction was continued on projects previously authorized.

A relatively small number of expropriations for pipe line easements and other pipe line property requirements were authorized during the year. In these cases, the Board holds hearings in the local area to encourage the presentation to the Board of all the facts of concern to the landowner. Often, the matter of most concern is compensation and the Board makes it clear that in case of inability to agree this issue must be referred to the Land Compensation Board, not to the Ontario Energy Board.

One of the cases involved the acquisition of a small parcel of land for a valve site for a 10-inch gas transmission line in the Township of Southwold in the County of Elgin, known as the Talbotville line, for which line the Board had granted leave to construct by its Order E.B.L.O. 160. The Board authorized the expropriation but on condition that visual effects be minimized by burying the valve assembly or locating it in an underground concrete vault. Most of the other expropriations sought or authorized in 1973 were for pipe line easements for this line.

An application by Union Gas to expropriate certain lands in the City of Windsor for pipe line construction, authorized by the Board by its Order E.B.L.O. 154, was received but not heard during 1973.

Franchises and Certificates of
Public Convenience and Necessity

Inter-City Gas Limited, which distributes natural gas in Fort Frances and other communities in Ontario near the Minnesota boundary as well as in Minnesota, was granted a Certificate of Public Convenience and Necessity for the supply of gas in the Township of Chapple. The principal customer is Arctic Peat Moss Limited, which conducts a peat moss excavation and drying operation within the municipality. In accordance with The Municipal Franchises Act, the Board also made an Order approving the terms and conditions of the gas franchise granted to the company by the municipality.

Union Gas Limited, which had the right to distribute gas for only a part of the Township of Bayhem in the County of Elgin, wished to extend its facilities into other parts of the Township and was granted a Certificate of Public Convenience and Necessity authorizing it to do so.

The Board approved the terms and conditions of gas distribution franchises granted to Union Gas Limited by the Township of Burford and the Town of Waterford. The company had formerly provided a limited service in Burford under its transmission franchise and wished to extend its lines in the municipality. In the case of Waterford, an old distribution franchise had expired.

An application for a Certificate of Public Convenience and Necessity was received from The Medina Natural Gas Company Limited for the right to supply gas in the areas previously served by that company's subsidiary, The Central Pipeline Company, Limited, i.e., the Town of Aylmer and surrounding areas. The application was held in abeyance pending negotiations by the Applicant for municipal franchises.

Amalgamations and Sales of Systems

During the year under review, Union Gas Limited amalgamated with its wholly-owned subsidiary, United Gas Limited. In accordance with section 26 of The Ontario Energy Board Act, the application for leave to amalgamate was made to the Board which held a hearing and submitted its report and opinion to the Lieutenant Governor in Council. Leave was granted by OC-840/73 dated March 21, 1973. In its report, the Board outlined the operations of the two companies and their inter-relationship and said:

"In the opinion of the Board, the proposed amalgamation of Union with its wholly-owned subsidiary is largely an internal matter and the lack of any objection thereto, or other intervention, illustrates public appreciation of this. Insofar as the public interest is affected, the Applicants estimate that expenses can be reduced by about \$90,000 per year and they submit that, under regulation, the customers receive the benefit of such a reduction in expenses.

"The Board is satisfied that the amalgamated company, as from the date of amalgamation, will be subject to regulatory control as fully as the two separate companies prior to amalgamation."

Early in 1973, the natural gas distribution system owned and operated by The Central Pipeline Company, Limited in Aylmer and surrounding areas, was sold to the parent company, The Medina Natural Gas Company Limited. Upon recommendation by the Board, Central was exempted by the Lieutenant Governor in Council from obtaining leave pursuant to section 26(1)(a) of The Ontario Energy Board Act. Medina is required, however, to obtain a certificate of public convenience and necessity from the Board and gas franchises from the municipalities served. An application for a certificate is on file but is being held in abeyance pending negotiation of municipal franchises.

Discontinuance of Service

After ten days of hearings at Cayuga during the period November 16, 1972 to May 15, 1973, the Board granted leave to Union Gas Limited to discontinue distributing natural gas to 34 customers in the Townships of North Cayuga, South Cayuga, Walpole, Dunn and Rainham in the County of Haldimand. As explained in more detail in the Board's Reasons for Decision dated July 31, 1973, the natural gas system of Dominion Natural Gas Company, which Union purchased in 1958, included fairly extensive gas production operations in Haldimand County comprising wells, field lines and gathering lines. Gas production, which studies showed to be uneconomic, was phased out by 1971, and Union then evaluated the continued use of the gathering lines, which connected the wells to the transmission system, for the purpose of distributing gas to the customers connected to them. The company came to the conclusion that, with respect to many lines, it would be uneconomic to up-grade them to distribution standards or to replace them. The company required agreement from the customers or, failing that, leave of the Board in order to discontinue service.

On the lines involved in the proceedings before the Board, agreements had been obtained from 225 customers and application for leave of the Board was made with respect to the remaining 36 customers, two of whom entered into agreements before the Board's hearings were concluded. In granting leave, the Board made it a condition that financial assistance be given by Union to the customers to assist them in the changeover to other fuels. This assistance was somewhat more ample than the company had provided for in the agreements it had obtained and the Board understands that the company voluntarily increased the payments under those agreements to correspond with the payments it had to make to the customers covered by the Board's leave Order.

Rates

The year 1973 was a particularly active one for the Board in the regulation of natural gas rates. Except for relatively small amounts of gas produced in the Province and small amounts imported from the United States, all the natural gas sold in Ontario is Western Canadian gas obtained in Ontario directly or indirectly from TransCanada PipeLines Limited. TransCanada's rates are regulated by the National Energy Board and that Board approved three successive increases in its rates, effective June 1, September 1 and November 1, 1973. These increases in cost to the Ontario producers resulted in applications to the Ontario Energy Board by the three major Ontario distributors for increases in the rates charged to their customers.

In the case of Northern and Central Gas Corporation Limited, which serves Northern Ontario and part of Eastern Ontario, the Board had completed a comprehensive review of the rates of the company in 1971 and, in approving rates at that time made provision for an adjustment, if necessary, following a decision of the National Energy Board on a then pending application to that Board by TransCanada PipeLines Limited. The N.E.B. decision was announced in May 1973 and it resulted in increased gas costs to Northern and Central effective June 1, 1973. After a hearing, the Board concluded that, under the terms of its 1971 Order, the company had not made a case for an Order of the Board passing on this increase. The company's earnings had improved somewhat since the 1971 Decision and, moreover, under the existing system of contractual rates for large users within ranges approved by the Board, most of the increase in purchased gas costs was recoverable from such customers without an Order of the Board. The Board's decision is explained in more detail in Reasons for Decision dated August 10, 1973.

On October 10, 1973, Northern and Central made a new application to the Board to approve or fix just and reasonable rates and at the same time requested the approval of interim rate increases that would permit it to recover two increases in its gas purchase costs which became effective on September 1, 1973 and November 1, 1973, pursuant to approvals granted to TransCanada PipeLines Limited by the National Energy Board. The two increases amounted to a little less than 7¢ per Mcf. The Board held a hearing on the request for interim increases and granted them for reasons explained in Reasons for Decision dated December 21, 1973. In granting the interim increases, the Board acted in accordance with guidelines set forth by the Board in an earlier case involving Union Gas Limited, as follows:

"No doubt rate increases granted on the basis of a prima facie case should be regarded as an extraordinary remedy and the request for it should be supported by a reasonable showing that, without it, substantial harm might result to the Applicants and, with it, substantial harm would not result to others. It is the tentative view of the Board that no denial of natural justice would result if the rates are thoroughly investigated as soon as possible and the interim increases, if any, are made subject to refund or other appropriate adjustment by the Board if then found to be unsupported, in whole or in part."

The interim increases were granted on a refundable basis, pending review after the hearing of the main application, and that hearing will be held as soon as possible in 1974.

A comprehensive review of the rates of The Consumers' Gas Company was undertaken by the Board early in 1973. Hearings on the company's rate base and return thereon were commenced on April 16 and continued from time to time throughout the year and into January of 1974 and a decision has been reserved pending consideration of written argument. The hearings were

interrupted on two occasions to deal with requests for interim rate increases designed to recover increases in the cost of gas purchased from TransCanada PipeLines Limited. In accordance with Reasons for Decision dated June 30, 1973, the Board authorized the first of these increases, amounting to 2.3¢ per Mcf, and in accordance with Reasons for Decision dated November 7, 1973, the Board authorized the second, amounting to a further 7¢ per Mcf. In both cases, the increases are subject to refund if found unwarranted by the Board when making its decision on the main proceeding.

A comprehensive review of the rates of Union Gas Limited was also undertaken by the Board in 1973. The application of the company for such a review included a request for interim rate relief, which would introduce a minimum monthly bill of \$3.00 and would also pass on to its customers increases in the cost of gas purchased by Union from TransCanada PipeLines Limited and from Panhandle Eastern Pipeline Company. The application for interim rate relief was heard by the Board on June 15 and 18, 1973, and, as explained in the Board's Reasons for Decision dated June 29, the Board refused to make an interim Order authorizing the introduction of a minimum bill, but granted an interim increase, on a refundable basis, of 3.25¢ per Mcf to enable the company to recover increases in its cost of purchased gas.

Subsequently, on August 3, the company requested the granting of further interim rate relief because of new increases in its cost of gas purchased from TransCanada and Panhandle. As explained in the Board's Reasons for Decision dated November 23, 1973, the Board granted an interim rate increase, on a refundable basis, of 7¢ per Mcf, this being in addition to the earlier increase of 3.25¢ per Mcf. The company's evidence in support of its main application was pre-filed and made available to interested parties about the end of September 1973 and hearings on that application will be held early in 1974.

A number of other gas rates matters, of less importance, were dealt with during the year. Many of these provided for continuation of particular interim rates of Union Gas Limited that will be finally disposed of in 1974 after the comprehensive review of the rates of that company. One matter of at least local public interest was the Board's approval of the initial rates to be charged by Inter-City Gas Limited for its new service in the Township of Chapple. Another matter of local public interest was the decision of the Board, after a public hearing in the area affected, to grant an interim increase of 15% in the gas rates of Wellandport Gas Co. Ltd., which sells gas to some 110 customers in the Township of West Lincoln and Wainfleet. The circumstances are explained in some detail in the Board's Reasons for Decision dated February 26, 1973.

During the year, there occurred the unusual case of a customer applying to the Board to fix just and reasonable rates. The customer, Cornwall Chemicals Limited, had been served under contract by Northern and Central Gas Corporation Limited, the contract had expired, and the customer had difficulty in obtaining a new contract on terms it considered reasonable. This matter is in abeyance, arrangements having been made between the parties for service up to October 31, 1974.

Regulation of Accounts

Because of the major rates cases pending before the Board and the inter-relationship of accounting treatment and rate-making treatment, a number of important accounting rulings that might otherwise have been made in 1973 pursuant to the Uniform System of Accounts have been deferred to 1974.

OIL AND REFINERY PRODUCTS

Upon an application by Sun-Canadian Pipe Line Company Limited, the Board granted leave to the company to construct 123 miles of 12-inch transmission pipe line in three sections paralleling an existing 8-inch line between Sarnia and Toronto. The line, which will carry refinery products, is to be laid close to the existing line and within the existing easements, and it is required in order to meet anticipated higher through-put demands. At the hearing at London on August 16, the proposed line location and construction practices, among other things, were examined in considerable detail and the proceedings are summarized in the Board's Reasons for Decision dated August 30.

ONTARIO HYDRO

The 1973 legislation which provides for references to the Board by the Minister of Energy of matters affecting Ontario Hydro, deals with two kinds of reference. Ontario Hydro's rate changes for each year normally become effective on January 1 of the year and its proposals for that year must be submitted to the Ministry eight months in advance, i.e., by May 1 of the previous year, and the Minister must then refer them to the Board for hearing and report. The first reference of this kind is expected to come to the Board on May 1, 1974 and cover the rate changes proposed for 1975.

The other kind of reference provided for in the legislation is discretionary with the Minister of Energy, who may at any time refer certain rate matters or rate-related matters to the Board. Upon receipt of such a reference, the Board is required to hold a public hearing at which it shall investigate and examine into the matter and report thereon to the Minister.

A reference of this kind was made by the Minister on November 5, 1973, requiring the Board to undertake a review of Ontario Hydro's power system expansion program and its financial policies and objectives. The Board immediately took steps to form a group of technical advisors to assist the Board and its counsel, Mr. R. W. Macaulay, Q.C., to give directions as to the preparation of evidence by Ontario Hydro, and to provide for the hearing and Notice of Hearing. The hearing was scheduled to commence on January 21, 1974, and notice thereof was widely published in November 1973. Interested persons who wished to make submissions to the Board were required to give notice of intention to do so by December 14 and a number of individuals and groups did so. Hydro was required to pre-file its evidence and argument on the first phase, i.e., power system expansion, by December 20, 1973, and to make this material available to interested persons.

Upon receipt of Ontario Hydro's pre-filed material on December 20, the Board's advisory staff, which had already been engaged in preliminary work, entered upon an intensive investigation of the various questions to be explored and, at the end of the year, the work on the Minister's reference was well under way.

ENERGY RETURNS OFFICER

This is a statutory position established under Part III of The Ontario Energy Board Act, to advise and assist the Board in the disposition of matters coming before it. The Energy Returns Officer has the power to obtain documents and records of gas utilities and the responsibility to notify the Board of all matters he thinks relevant to Board proceedings or possible future Board proceedings. In quasi-judicial proceedings, no document, record, or photocopy in the hands of the Energy Returns Officer shall be excluded as evidence on

grounds of privilege. Such information is usually adduced through Board counsel, at hearings, but is confidential with respect to third parties until it is entered as evidence.

During 1973, the rate hearings for the major gas utilities occupied most of the time of the Energy Returns Officer and staff in gathering financial information, evaluating the evidence and advising and assisting the Board, its counsel, and several expert witnesses retained by the Board to present evidence. The fact that few respondents took an active part in the proceedings placed greater responsibilities on the Energy Returns Officer and staff.

In the Consumers' Gas proceedings to the end of 1973, the staff participated in the preparation of cross-examination extending over 26 hearing days, some 20 multi-question, written interrogatories of company witnesses, and the review of 3,850 pages of transcript and 171 exhibits filed as evidence in the hearings. It is expected that cross-examination and argument in Phase I of this application (revenue requirements) will be completed early in 1974, and Phase II (rate structures) will commence.

The staff have also been occupied in preparing for the resumption of the Union Gas main hearing in January 1974 involving both written interrogatories and oral cross-examination of a complexity approaching Phase I of the Consumers' case. The main application of Northern and Central Gas will not be heard until somewhat later in 1974, but advance preparation was underway by the end of the year.

In addition, the Energy Returns Officer and staff must prepare for the Board's review of the Ontario Hydro's financial policies and financial objectives, which will follow

the review of policies and practices respecting expansion of the Ontario Hydro power system. This review commences in January 1974.

During the year, approval was obtained to increase the staff by three financial analyst-auditors and to retain outside professional accounting assistance where required.

ONTARIO ENERGY BOARD

Members:	S. W. Clarkson	Chairman
	A. B. Jackson, Q.C.	Vice-Chairman
	I. C. MacNabb, P.Eng.	Vice-Chairman
	W. D. R. Eldon, Ph.D.	
	A. J. G. Leighton, P.Eng.	
	W. W. Stevenson, Ph.D.	
	D. M. Treadgold, Q.C.	
	J. A. W. Whiteacre, Q.C.	
	Miss S. J. Wychowanec, Q.C.	
Board Secretary:	Miss I. C. Fidler	
Board Solicitor:	L. Graholm	
Director of Operations:	J. C. Butler	
Special Projects Officer:	D. R. Cochran	
Manager, Engineering:	K. J. Slater	
Board Engineer:	H. Strozyk	
Manager, Rate Design:		
Manager, Financial Analysis: (Energy Returns Officer)	W. P. Armes	
Senior Financial Analyst: (Deputy Energy Returns Officer)	O. J. Cook	
Senior Financial Analyst:	A. Meddows-Taylor	

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Government
Publications



Ontario Energy Board



ANNUAL REPORT

Year ending December 31, 1974



ANNUAL REPORT

Year ending December 31, 1974



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ster

Ministry of
Energy

416/965-4286

Queen's Park
Toronto Ontario

September, 1975

TO THE HONOURABLE PAULINE M. MCGIBBON
Q.C., B.A., LL.D., D.U. (OTT.)

Lieutenant-Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the Fifteenth Annual
Report of the Ontario Energy Board for the fiscal
year ending December 31, 1974.

Respectfully submitted

A handwritten signature in dark ink, appearing to read "D. Timbrell", written over a horizontal line.

Dennis R. Timbrell
Minister



Ontario
Energy
Board

416/965-6078

9th Floor
14 Carlton Street
Toronto Ontario
M5B 1K5

January 31, 1975

Honourable Dennis R. Timbrell
Minister of Energy
12th Floor, 56 Wellesley Street West
Toronto, Ontario

Dear Mr. Timbrell:

I have the honour to present herewith the Annual
Report of the Ontario Energy Board for the
calendar year 1974.

Respectfully submitted,

A. B. Jackson
Chairman

FIFTEENTH ANNUAL REPORT

OF THE

ONTARIO ENERGY BOARD

YEAR ENDING DECEMBER 31, 1974

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ONTARIO ENERGY BOARD

1974 ANNUAL REPORT

INTRODUCTION

[The work of the Board during 1974 was considerably increased over preceding years as a result of the 1973 amendments to The Ontario Energy Board Act and the continuing problems facing the energy sector of Ontario industry. The issues of price and possible shortage of energy again were central to most proceedings.

[Under the 1973 amendments, and in compliance with references from the Minister of Energy, the initial reviews of rates and rate-related matters of Ontario Hydro ("Hydro") were undertaken. The first reference was in respect of the system expansion program from 1977 to 1982 and the financial policies and objectives of Hydro. A second reference related to the bulk power rates to be charged by Hydro during 1975. These matters are discussed in more detail in a separate section of this Report.

The comprehensive reviews of the rates of the three major gas utilities (The Consumers' Gas Company ("Consumers'"), Union Gas Limited ("Union"), and Northern and Central Gas Corporation Limited ("Northern and Central")) undertaken by the Board in 1973 continued through 1974 and will continue into 1975. As part of these reviews the Board considered several applications for interim relief as a result of the increasing cost of gas purchased from their suppliers, principally TransCanada PipeLines Limited ("TransCanada"). The major reason for increases in TransCanada's rates is higher well-head prices in Western Canada. Each increase in TransCanada's rates results in a minimum of

three hearings for the Board. Rate hearings are discussed in more detail in a separate section of this Report.

Gas rates and Hydro matters, then, were the principal concerns of the Board during the year. Present indications are that the current high level of Board activity will continue through 1975.

The only change in the Board's jurisdiction during 1974 resulted from an amendment to Section 10(1) of The Municipal Franchises Act. The Board now has the power to extend the term of a transmission or distribution franchise that has expired or will expire within one year of application. Previously such power was limited to distribution franchises.

COMPOSITION OF THE BOARD

During the year Mr. S. W. Clarkson resigned as Chairman of the Board to become Chairman of the Civil Service Commission. The new Chairman is Mr. A. B. Jackson, formerly a Vice-Chairman.

The Board now consists of seven members, including the Chairman and a Vice-Chairman. They are:

- A. B. JACKSON, Q.C., Chairman
- I. C. MacNABB, P.Eng., Vice-Chairman
- W. D. R. ELTON, Ph.D., Member
- W. W. STEVENSON, Ph.D., Member
- S. J. WYCHOWANEC, Q.C., Member
- *D. M. TREADGOLD, Q.C., Member
- *J. A. W. WHITEACRE, Q.C., Member

* Part-time

The principal officers of the Board are:

Director of Operations:	J. C. Butler
Board Secretary:	I. C. Fidler
Board Solicitor:	L. Graholt
Special Projects Officer:	D. R. Cochran
Manager, Engineering:	K. J. Slater
Board Engineer:	H. Strozyk
Manager, Financial Analysis: (Energy Returns Officer)	O. J. Cook
Senior Financial Analyst:	A. Meddows-Taylor

FUNCTIONS OF THE BOARD

The Ontario Energy Board was established in 1960 as the successor to the Ontario Fuel Board, with the primary duty of regulating rates for the transmission, storage, distribution and sale of natural gas in the Province, and with certain limited additional duties in the energy field. The major functions of the Board are:

a) Under The Ontario Energy Board Act

Approving or fixing rates and other charges for the sale of gas by transmitters, distributors and storage companies and for the transmission, distribution and storage of gas.

Ensuring compliance by gas companies with the Uniform System of Accounts.

Granting leave to construct pipe lines and stations.

Granting authority to expropriate land for pipe lines and stations and authorizing pipe lines to cross highways, utility lines or ditches.

Recommending to the Lieutenant Governor in Council the creation of designated gas storage areas and authorizing their use.

Approving gas storage agreements and allowing a transmitter or distributor to use the empty space of a storage company.

Unitizing the interests in gas and oil spacing units and pools.

Reporting to the Lieutenant Governor in Council, after hearings, on applications by gas companies to sell their assets or amalgamate with other companies and on applications by persons to acquire shares of a gas company which would result in a holding of more than 20% of such shares.

Reporting to the Lieutenant Governor in Council on energy questions referred to the Board under Section 37 of the Act.

Examining into and reporting to the Minister of Energy on Hydro rates and rate-related matters, pursuant to references from the Minister.

b) Under The Municipal Franchises Act

Approving the terms of a proposed by-law granting a franchise to supply gas to a municipal corporation or distribute gas in the municipality, and extending the term of such franchise or of a transmission franchise.

Granting certificates of public convenience and necessity to construct works and supply gas in municipalities.

c) Under The Petroleum Resources Act, 1971

Reporting to the Minister of Natural Resources, pursuant to references from him, on certain applications for permits and licences.

d) Under The Public Utilities Act

Controlling gas companies that contravene municipal by-laws prohibiting the distribution and sale of gas containing sulphuretted hydrogen.

e) Under The Assessment Act

Deciding whether certain gas pipe lines are transmission lines for assessment purposes.

WORK OF THE BOARD

As has been indicated in the Introduction, gas rates and Hydro matters occupied the majority of the Board's time during the year.

A total of 85 new proceedings were commenced before the Board, three of these being ministerial references and one a reference from the Lieutenant Governor in Council. Sixty-four proceedings were completed during the year, either by way of order or report. A breakdown of these is as follows:

Under The Ontario Energy Board Act

Gas Rates and other charges for gas	...	...	5
Leave to construct transmission pipe lines	...		6
Land expropriations for pipe lines	...	...	34
Joining of Interests	...	...	1
Designation and Authorization	...	...	2
Miscellaneous Orders	...	...	4
References by Minister...	...	...	4

Under The Municipal Franchises Act

Approval of gas franchise agreements	...	...	7
Certificates of public convenience and necessity			1

64

In accordance with its usual practice, the Board held its hearings at locations convenient for applicants and interested parties. Forty-seven hearings were held outside Toronto: at Windsor, London, Kitchener, Sarnia, Woodstock and Fort Frances.

Proceedings before the Board are open to the public and, subject to certain limited exceptions, a public hearing is held before any order or report is made.

In all cases where an application is opposed, and in other cases upon request, the Board issues written reasons for decision. The Board's orders are subject to appeal to the Court of Appeal on a question of law or jurisdiction and are also subject to review by the Lieutenant Governor in Council.

When the Board acts on a reference from the Lieutenant Governor in Council, the Minister of Energy or the Minister of Natural Resources, it must in most instances hold a public hearing and submit a report. In addition to the two references from the Minister of Energy concerning Hydro, the Board also reported on two references from the Minister of Natural Resources. One was in connection with an application by Tecumseh Gas Limited for a permit to drill wells in designated gas storage areas to improve deliverability. The Board held an ex parte hearing and recommended that the necessary permits be granted, subject to whatever conditions the Ministry deemed appropriate. The other was in connection with an application by Petrosar Limited for permission to inject various substances into storage caverns by means of five wells to be drilled near Sarnia. After a hearing the Board reported that permission be granted, subject to conditions set out in the report.

Late in the year the Lieutenant Governor in Council by O.C. 3100/74 required the Board, pursuant to section 37 of The Ontario Energy Board Act, to examine and, after a public hearing, report on various aspects of investments or expenditures by Ontario gas distributors to secure additional future supplies of gas for Ontario.

The Board requested Ontario gas distributors to file their submissions by the end of January, 1975, and expects to hold the hearing in the spring.

Two exemption orders for transmission line construction were granted. They are discussed in a separate section of this Report. Hearings are not required in these instances.

Two accounting orders were issued. They are discussed in a separate section later in this Report. Hearings are also not required for these matters.

During the course of the year the Board heard its first application under Section 43 of The Ontario Energy Board Act, which provides among other things for pipe line crossings of highways. The Board authorized Union to construct a transmission line under the highways of Dawn Township.

NATURAL GAS

Rates

As mentioned earlier, major rate hearings in respect of Consumers', Union and Northern and Central continued through 1974.

The vast majority of gas sold by the major gas utilities is purchased from TransCanada whose source of supply is Western Canada. During the year the National Energy Board approved two increases in TransCanada's rates, effective September 1, 1974, and November 1, 1974, the latter being of major proportion. These increases involved the Board in dealing with applications by Consumers', Union and Northern and

Central for interim orders within the framework of their main applications, to pass on the rate increases charged to each of them by TransCanada.

1. The Consumers' Gas Company

[Reasons for decision in respect of Consumers' rate base, return thereon and reasonable return (Phase I) were handed down on July 9, 1974. The Board determined that the rate base (roughly equivalent to the amount of money invested in the utility business of the Company) for the test year ended September 30, 1972, was \$429,354,401. The Board also determined that, for the purpose of assessing the reasonableness of rates to be charged in future, the existing rates were expected to produce a rate of return on the rate base of 9.0%, whereas a rate of return of 9.35% would be reasonable.

The rate of return of 9.35% that the Board found to be reasonable was a composite of the rates allowed on the various capital components, as follows:

Long-term debt	7.35%
Preference shares	5.66%
Common share equity	14.00%

[The Board explained that its findings meant that it would be appropriate for Consumers' to propose rate revisions that would increase the rate of return on the test-year rate base from 9.0% to 9.35% and the Board estimated that to achieve this increase in the rate of return would require a revenue increase of \$2,900,000 if applied to the test year. The Board anticipated that the Applicant, in revising its rates to recover the additional revenues, would make other revisions of its rate structures, and said that it would expect the Applicant to support its proposals with cost allocation studies and other evidence.

[Calculating that the Company's rate of return at the time of the Phase I decision was no more than what would be reasonable at that time, the Board confirmed the interim increases of 2.3¢ and 7.0¢ per Mcf granted to Consumers' in 1973 to enable the Company to recover increases in that year in its costs of gas purchased from TransCanada.]

[A third interim decision was brought down on September 30, 1974. Consumers' was allowed to increase its rates to all its customers by 2.43¢ per Mcf on a non-refundable basis to enable it to recover the September 1974 TransCanada increase and in addition, to increase its rates to all except large volume industrial and commercial customers by 3.4¢ per Mcf on a refundable basis to enable it to recover the previously allowed \$2,900,000.]

A fourth interim decision was handed down on November 27, 1974. Consumers' was allowed to increase its rates to all its customers by 24.11¢ per Mcf on a non-refundable basis to enable it to recover the November 1974 TransCanada increase.]

The Board continues to hear Phase II (rate design) of the Consumers' application.

2. Union Gas Limited

[The Union Phase I decision (rate base, reasonable rate of return, cost of service) was handed down on October 9, 1974. The rate base for the test year ended March 31, 1973, was found to be \$318,677,000 and the reasonable rate of return on rate base was found to be 9.6%. This latter figure was determined from the overall cost of the various components of capital, as

follows:

Long-term debt	7.8%
Preference shares	5.0%
Common share equity	14.0%

Test year utility revenue was found to be \$185,616,000, a figure deficient from cost of service by \$10,578,000. As there was a revenue deficiency the Board confirmed the interim increases of 3.25¢ and 7.0¢ per Mcf granted in 1973 to enable Union to recover increases in that year in its costs of gas purchased from TransCanada and Panhandle Eastern Pipeline Company. As in the Consumers' case, the Board added that Union's application for approval of new rate schedules should be supported by cost allocation studies and other evidence.

A third interim decision was handed down on December 24, 1974. Union was allowed to increase its rates effective January 1, 1975, on a basis that would produce uniform rates in its two rate zones, subject to adjustment to reflect the rates finally ordered in Phase II. These interim rates permit Union to recover the revenue deficiency of \$10,578,000, the September 1974 TransCanada increase amounting to 2.5¢ per Mcf, the November 1974 TransCanada increase amounting to 24.2¢ per Mcf and a December 1974 Panhandle increase amounting to 8.51¢ per Mcf subject to exchange adjustments.

The Board continues to hear Phase II (rate design) of the Union application.

3. Northern and Central Gas Corporation Limited

No decision as to rate base and return thereon has yet been handed down in Phase I of the Northern and Central application, although the hearing was otherwise completed on December 18, 1974.

A third interim decision (two were brought down in 1973) was handed down on September 20, 1974. The Board denied Northern and Central's application for rate increases in the range of 1.41¢ to 2.05¢ per Mcf to offset the September 1974 TransCanada increase as the Applicant was not able to show to the satisfaction of the Board that it would sustain substantial harm if required to bear the increased cost pending disposition of the main application.

A fourth interim decision was handed down on November 28, 1974. It allowed Northern and Central to increase its rates to fixed rate customers in its three rate zones respectively by 22.63¢, 23.28¢ and 24.10¢ per Mcf and to increase the range limits that apply to contract customers by the same amounts, all on a refundable basis, to enable it to recover the November 1974 TransCanada increase. The increase in range limits were granted solely for the purposes of passing on the increased costs, and not to provide a higher range of rates for purposes of renegotiating existing customer contracts.

4. Others

In December the Board dealt with an interim application by Inter-City Gas Limited to pass on increased gas costs. A decision was not reached by year's end. The main application will be dealt with in the spring of 1975.

During the year the Board also dealt with a number of gas rate matters of less importance that did not involve public hearings. In the latter part of the year the Board received gas rate applications from some smaller gas utilities, namely The Medina Natural Gas

Company Limited, Farmers' Gas Limited and Moffat Lake Explorations Inc., and a steam rate application from Industrial Steam Limited. These will also be dealt with in 1975.

Accounting Orders

The Phase I Consumers' decision of July 9, 1974, resulted in two applications by Consumers' for accounting orders. Orders were issued approving of Consumers' revised depreciation rates, its accounting treatment of joint-clamping costs, deferred gas costs and extraordinary plant losses.

On December 31, 1974, Union filed four applications for accounting orders to reflect the findings contained in the Board's Reasons for Decision of October 9, 1974.

Unitization

Union submitted an application to the Board to join the various interests within the Coveny Pool in the Township of Sombra, County of Lambton, for purposes of drilling and operating wells, designation of management and apportioning of costs and benefits of such drilling or operation. A public hearing was held in Sarnia on September 19, 1974. Evidence submitted indicates that this Pool contains an estimated recoverable volume of 1.5 Bcf of gas, none of which has been produced. As a result of that hearing the Board issued an order unitizing the various interests within the Pool.

An application received in 1973 for the unitization of the Dawn 4-28-3 Pool in the Township of Dawn, County of Lambton, was heard in Sarnia on September 18, 1974. However, to date the Board has not rendered its decision. Evidence submitted indicates that this Pool contains a recoverable volume of approximately 0.2 Bcf of gas.

Gas Storage

Union, which prior to application operated six designated gas storage areas with a total working capacity of some 60 Bcf at original discovery pressures, applied to the Board for regulations to designate two additional storage areas: the Bentpath Pool in Dawn Township, and the Terminus Pool in Sombra Township, both in Lambton County.

In each of these proceedings the Board found that it was in the public interest that additional storage capacity be available as protection against possible future curtailment of gas supply and recommended to the Lieutenant Governor in Council that regulations be made designating these areas as gas storage areas. Regulations were made in due course and the Board subsequently issued orders authorizing Union to inject gas into, store gas in and remove gas from these designated areas.

Including these two pools, Union has a total working storage capacity of approximately 72 Bcf.

Union also applied for an order approving a proposed storage agreement between it and Consumers'. Consumers' needed additional gas storage facilities, on a short term basis, as a consequence of predeliveries by

TransCanada of volumes of gas contracted for delivery after November 1, 1974.

The Board granted Union's request that the application be decided without a hearing and approved the proposed storage agreement with respect to the parties, term and storage.

Finally, Union applied to the Board for approval of those terms and conditions of an agreement between Union and Lowell Gas Company ("Lowell") relating to gas storage service which Union proposes to provide to Lowell.

Lowell is a company incorporated in the State of Massachusetts, U.S.A., and is a regulated public utility engaged in the distribution of gas in Lowell, Massachusetts, and its environs.

It was stated at the hearing that additional storage would be of considerable value to Lowell to enable it to meet winter peak requirements of its customers and that Lowell finds it difficult, if not impossible, to obtain such service in the United States. Union has excess storage in its Lambton County gas storage pools and proposed to allocate to Lowell 3 Bcf of its storage capacity for a primary term of four years commencing March 31, 1975, and on a year to year basis thereafter.

By decision dated December 23, 1974, the Board approved the proposed storage agreement between Union and Lowell, subject, inter alia, after March 1, 1979, to respective rights of first and second refusal by Ontario distributors and TransCanada of the capacity dedicated to Lowell.

Pipe Lines

E.B.O. 59 and E.B.L.O. 152 (49) (two orders of the Board issued in 1972, one being an order varying an order granting leave to construct a transmission line in the County of Essex and the other an associated expropriation order) were appealed in 1973 to the Divisional Court and to the Court of Appeal. The Court of Appeal decision was reported as Re Union Gas Limited v. Quaggiotto et al (1974) 1 O.R. (2d) 751, 41 D.L.R. (3d) 515. This case holds inter alia that "general location" in Section 40 of The Ontario Energy Board Act relates to a general, as contrasted with a specific, indication of the route to be followed by a pipe line. In authorizing expropriation of a particular parcel of land the Board is free to deviate from the delineated general location to such reasonable extent as in the Board's discretion may be necessary or desirable having regard to controlling circumstances which may arise from time to time as the project proceeds. The deviation in this case was 126 feet to the other side of a 26-foot utility right-of-way and a 99-foot railway right-of-way.

Four applications were received for orders granting leave to construct natural gas pipe lines and stations. One held over from 1973 was also dealt with.

An application by Union to construct 21 miles of 12-inch high-pressure transmission line north from its Dawn-Trafalgar 26- and 34-inch lines and west of Kitchener and Waterloo to a regulator station north of Waterloo was dismissed on the ground that the route chosen was not the best. The Board left it to Union to investigate a suggested alternate route and file a revised application.

The revised application suggested a line some 17.2 miles long located for the most part on Hydro rights-of-way, together with two valve stations and an odourant injection and metering station. This application was granted.

Leave orders were also granted to Union to construct:

- a) 34.2 miles of high-pressure 42-inch looping line from the Dawn Compressor station to the Strathroy Gate Station, the 10.8-mile portion from the Dawn Compressor Station to the Enniskillen Valve Site being authorized for immediate construction and the balance being authorized for construction later, when shown to be economically feasible; and
- b) A regulator and metering station in the town of Essex and sections of 4- and 6-inch pipe line connecting the station with the existing distribution system,

and to Northern and Central to construct 38.5 miles of high-pressure 10-inch transmission line from Walden, near Sudbury, west to Espanola, a related measuring and regulating station, and 5.5 miles of 12-inch line from Nickel Centre to Sudbury to loop a portion of an existing line.

Expropriations

Thirty-four expropriations for pipe line easements and other pipe line property requirements were authorized during the year. The Board holds these expropriation hearings in the local areas to encourage the presentation to the Board of all facts of concern to the landowner. Twenty nine of these were authorized (including three that were authorized in part) for the first phase of the Dawn-Trafalgar 42-inch loop line.

The other five expropriations were for lands necessary to complete the construction of the 10-inch Dominion Woodstock line for which leave to construct was granted in 1972.

As in previous years, a special pipe line inspector acted as liaison between the landowners and pipe line companies during construction and clean-up periods and to ensure compliance with the terms and conditions of Board orders related to the construction.

Exemptions

Two exemption orders were issued by the Board for transmission line construction under Section 38(3) of The Ontario Energy Board Act.

One was granted to Union for the construction of 8 miles of 8-inch line to replace an existing 12-inch Dominion line in the Townships of Harwich and Howard, County of Kent. The existing line was leaking and unfit for use.

The other exemption was granted to Dow Chemical of Canada Limited to construct a 3-inch benzine line from its plant in Sarnia to the property of Shell Canada Limited in the Township of Moore, County of Lambton.

Franchises and Certificates

The Board approved the terms and conditions of a gas distribution franchise of Consumers' for the Town of Pelham and of Union for Lambton County and the renewal of Consumers' franchise for the Town of Richmond

Hill. Consumers' application in respect of the Town of Pelham was necessitated by the creation of a new Town of Pelham under The Regional Municipality of Niagara Act, amalgamating Pelham Township, part of Thorold Township and the Village of Fonthill.

In the northern part of the Province, gas franchises of Northern and Central were approved for four areas not previously served with gas: the Towns of Espanola and Walden and the Townships of Nairn and Baldwin. The Board issued a certificate of public convenience and necessity authorizing the laying down of mains and pipes for distribution in these new areas.

The earlier indicated amendment to The Municipal Franchises Act led to one application: Union applied to extend its expired transmission franchise for Dawn Township. The Board extended the franchise by interim order without a hearing and the application will be heard in 1975.

ONTARIO HYDRO

[During 1974, two hearings were conducted into matters relating to Hydro. The first of these resulted from a reference from the Minister of Energy dated November 5, 1973, under Section 37a of The Ontario Energy Board Act, requiring an investigation, examination and report on:

- a) The policies and practices respecting expansion of the Hydro power system, including the Generation Development Program for the period 1977 to 1982, which was approved in principle by the government of Ontario in June, 1973 subject to review; and
- b) The financial policies of Hydro, together with financial objectives.

The second hearing resulted from a reference from the Minister of Energy dated May 1, 1974, again under Section 37a, requiring an investigation, examination and report on a proposal by Hydro to change its bulk power rates and charges effective January 1, 1975.

Power System Expansion Program and Financial Policies

This hearing was held in two phases. The first phase, dealing with power system expansion, commenced on January 21, 1974, and included a review for the period 1977-1982 of:

- a) The load forecast;
- b) Planning the new generation and bulk transmission facilities; and
- c) The program for new generation and bulk transmission.

The second phase, dealing with financial policies and objectives, commenced on April 1, 1974. A total of 58 hearing days were required for the two phases and the hearing concluded on June 3, 1974.

The system expansion program under review included the construction of 10,500 megawatts of new generating capacity, both nuclear and fossil-fired, as well as three new heavy water plants. In addition to these, which were estimated to cost \$7,439 million, associated expansion of bulk transmission facilities was estimated to cost a further \$1,283 million, both figures representing current, or escalated dollars.

Financial policies and objectives examined by the Board pertained to the financing of capital requirements estimated by Hydro at \$30,943 million in escalated dollars for the period 1974 to 1986. The

average annual increase in capital fund requirements over the period is approximately 13%. Hydro witnesses testified that they expected to borrow in the capital markets something over 70% of the total cost of providing future facilities and to raise the balance of the capital required internally, that is, from current rates.

In carrying out its investigation and examination, the Board was assisted by a small group of staff members and consultants and by Board counsel. The Board received submissions from the Ontario Municipal Electric Association, The Consumers' Gas Company, Niagara Basic Power Users Committee, Pollution Probe, Sierra Club, Carl T. Rose and C. K. Kalevar. Several of these intervenors added to the hearing process by presenting evidence and argument and by conducting cross-examination.

The Board made an interim report to the Minister on May 22, 1974, to assist the Government in deciding where specific authorization might be given to Hydro to proceed with the construction of facilities.

A final report dated August 26, 1974, made various proposals to the Minister, the more important of which included:

- a) reducing Hydro's reserve capacity requirements;
- b) reviewing generation reserve capacity requirements including a study of whether customers will accept some reduction in the quality of service provided by Hydro;
- c) intensifying efforts to ensure a secure supply of fuels for Hydro's generating stations and re-examining its schedule for constructing heavy water plants;
- d) proceeding as planned with the construction of the Pickering nuclear station expansion and the Wesleyville oil-fired station and with two of the three proposed heavy water plants. Approval

was also recommended for expansion at the Bruce nuclear station, but it was suggested that the Minister consider a deferral of the in-service dates of some units;

- e) publicly reviewing Hydro's long-range expansion plans;
- f) consideration of the need for Hydro's financial policies to give adequate weight to the protection of the provincial credit and to the economic consequences of the possible under-pricing of electricity; and
- g) establishing a level of retained earnings on a reasonably firm and continuing basis, namely a return on year-end equity somewhat greater than the embedded cost of long-term debt.

Bulk Power Rates for 1975

The subject matter of this hearing was Hydro's bulk power or wholesale rates charged the 353 municipal electric utilities in Ontario and the 90-odd industrial customers served directly by Hydro having average annual power demands of 5,000 kilowatts or more. Proposed rate changes would have provided Hydro with additional 1975 revenues of about \$115 million through increases averaging 15% to municipal utilities and 16% to direct industrial customers.

The hearing commenced on June 10, 1974, and concluded on August 14, 1974. Besides some of the parties who intervened at the hearing resulting from the first reference, two public interest groups and five municipal electric utilities actively participated in this hearing. Nine other intervenors submitted briefs.

Various issues associated with Hydro's rates and charges were strongly contested. These included:

- a) Hydro's proposal to smooth requirements year by year;

- b) The recovery of previous deficits attributed to directly served industrial customers;
- c) The level of the annual provision for retained earnings and the method of financing new facilities;
- d) Hydro's fuel cost forecasts and export sale forecasts;
- e) The relationship between the demand and energy components of the bulk power rates;
- f) The allocation of demand costs to the various customer classes;
- g) Rates and service conditions for interruptible power; and
- h) The concept of allowing a return on customer's equity in the Hydro system.

In its report to the Minister of Energy dated August 30, 1974, the Board expressed its general satisfaction with Hydro's rate proposals. However, on certain matters of judgment inherent in any projection of costs and construction of consequent rates, the Board proposed that judgments different from Hydro's should be applied. The most notable of these proposals were that:

- a) while satisfactory in concept, revenue smoothing should be deferred until 1976 and 1975 rates should be based solely on projected 1975 costs;
- b) the level of the annual provision for a return on year-end equity should be determined in accordance with a firmer standard than that proposed by Hydro; and
- c) the energy component of Hydro's proposed bulk power rate should be higher; the Board recommended an energy charge of 4.5 mills per kilowatt-hour instead of the proposed 4 mills.

In addition to the foregoing, the Board made a number of other proposals affecting the determination of rates for 1975 and also proposed that various matters

related to the bulk power rates be the subjects of further study. These matters included depreciation policy, the relationship between demand and energy cost components, the allocation of demand costs, interruptible rates and the recovery of deficits from direct industrial customers.

The net effect of the Board's proposals was a reduction in the average rate increases to municipal utilities and direct customers from 15.3% and 16.0% respectively to 12.7% and 14.5% respectively.

The legislation does not make the Board's proposals binding on Hydro. However, with some relatively minor qualifications, the Board's proposals were in fact accepted.

ENERGY RETURNS OFFICER

The Energy Returns Officer has a special status in the organization of the Board, the position and the powers and duties associated therewith being provided for in Part III of The Ontario Energy Board Act.

This officer has statutory powers to obtain from gas companies information, documents and records related to their gas businesses, and such information, documents and records are confidential in his hands unless introduced into evidence at a hearing. It is his duty to notify the Board of all matters he thinks relevant to Board proceedings or possible future Board proceedings. He is the Board's chief financial analyst and among other things advises the Board in respect of compliance by gas companies with the Uniform System of Accounts.

Aside from the audit function in respect of gas utilities, the rate hearings for the three major gas utilities and the hearings on references in respect of Ontario Hydro occupied most of the time of the Energy Returns Officer and his staff. They were involved in gathering financial information, evaluating evidence, preparing written interrogatories and assisting Board counsel with cross-examination and argument.

At various times throughout the year experts retained by the Board to prepare reports or present evidence assisted the Energy Returns Officer and his staff.

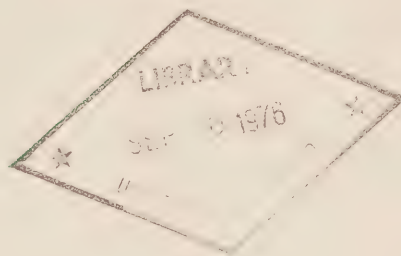
During the year W. P. Armes, who had been Energy Returns Officer since the inception of the Board in 1960, resigned and was replaced by O. J. Cook.

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Government
Publications



Ontario Energy Board



ANNUAL REPORT

FISCAL YEAR ENDED MARCH 31, 1976



Office of the
Chairman

Ontario
Energy
Board

416/965-6078

9th Floor
14 Carlton Street
Toronto Ontario
M5B 1K5

May 19, 1976

Honourable Dennis R. Timbrell
Minister of Energy
12th Floor
56 Wellesley Street West
Toronto, Ontario

Dear Mr. Timbrell:

I have the honour to present herewith the Annual
Report of the Ontario Energy Board for the fiscal
year ended March 31, 1976.

Respectfully submitted,

A. B. Jackson
Chairman



ce of the
ster

Ministry of
Energy

416/965-4286

Queen's Park
Toronto Ontario

June, 1976

TO THE HONOURABLE PAULINE M. MCGIBBON
Q.C., B.A., LL.D., D.U. (OTT.)

Lieutenant-Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the Sixteenth
Annual Report of the Ontario Energy Board for
the fiscal year ending March 31st, 1976.

Respectfully submitted

Dennis R. Timbrell
Minister

SIXTEENTH ANNUAL REPORT

OF THE

ONTARIO ENERGY BOARD

FISCAL YEAR ENDED MARCH 31, 1976

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ONTARIO ENERGY BOARD

ANNUAL REPORT

Fiscal Year Ended March 31, 1976

INTRODUCTION

During the fiscal year ended March 31, 1976, the activities of the Board continued at the high level of the previous year. The natural gas distributors applied to pass on to their customers escalating costs resulting from inflation, increases in the federally regulated price of natural gas and potential supply problems. The Minister of Energy again referred to the Board under section 37a of The Ontario Energy Board Act ("the Act") certain matters pertaining to Ontario Hydro ("Hydro").

The Board completed the Phase II (rate design) portions of the hearings of the major rate applications of The Consumers' Gas Company ("Consumers'") and Union Gas Limited ("Union"), both of which had commenced in 1974. These companies quickly filed new applications for orders fixing just and reasonable rates. New hearings commenced on Phase I (rate base, return thereon and reasonable return) which will continue into the 1976-77

fiscal year, and will be followed by hearings on Phase II (rate design).

Reasons for Decision on Phase I of the Northern and Central Gas Corporation Limited ("Northern and Central") rate case were handed down on May 9, 1975. The Phase II hearing is scheduled to commence in June, 1976.

As part of the proceedings for the rate cases of the three major gas distributors, the Board heard applications for interim rate relief because of increases in the cost of purchased gas. These increases resulted for the most part from increased rates of TransCanada PipeLines Limited ("TCPL") approved by the National Energy Board and from regulations under the Petroleum Administration Act prescribing prices agreed to by the federal government and the Province of Alberta. As to the latter, the Toronto city-gate price for natural gas was increased to \$1.25 per Mcf (thousand cubic feet), being 85% of "commodity value". The result represented an increase in gas costs of about 50% to the distributors.

In addition, the Board considered applications from smaller distributors also affected by dramatic increases in costs. A more detailed review of rate hearings appears in a later section of this report.

The Hydro reference required the Board to investigate and report on Hydro's bulk power rates proposed for 1976. The reference also included a request that the Board review the status of several studies currently being conducted by Hydro as a result of suggestions by the Board in its 1974 report. The review conducted during the fiscal year is discussed in the last section of this report.

The Ontario Energy Board Amendment Act, 1975, (2nd Session) received Royal Assent on December 18 but had not been proclaimed as of March 31, 1976. The amendment to the Statute authorizes the Board to require and implement allocation plans for gas distributors in the event of shortages of natural gas in Ontario.

COMPOSITION OF THE BOARD

At the close of the year under review, the Board consisted of nine members, including the Chairman and a Vice-Chairman. They were:

A. B. Jackson, Q.C.	Chairman
I. C. MacNabb, P.Eng.	Vice-Chairman
W. W. Stevenson, Ph.D.	Member
S. J. Wychowanec, Q.C.	Member
H. R. Chatterson, B.Comm.	Member
R. H. Lamb, P.Eng.	Member
G. W. Clayton, P.Eng.	Member*
D. M. Treadgold, Q.C.	Member*
J.A.W. Whiteacre, Q.C.	Member*

During the summer of 1975, the Board was strengthened by the addition of Mr. Lamb and

*Part-time

Mr. Chatterson as full-time members. Later in the year Dr. W. D. R. Eldon resigned and Dr. Stevenson found it necessary to devote much of his attention to the Royal Commission on Electric Power Planning, of which he is also a member.

The principal staff of the Board were:

Board Secretary	Ivy C. Fidler
Energy Returns Officer and Manager Financial Analysis	O. J. Cook
Director of Operations	J. C. Butler
Board Solicitor	L. Grahlm
Special Projects Officer	D. R. Cochran
Manager, Engineering	(vacant position following resignation in October 1975 of K. J. Slater)
Board Engineer	H. Strozyk
Manager, Rate Design	Dr. M. Jackson
Financial Analyst	A. Meddows-Taylor
Financial Analyst	A. Parekh

WORK OF THE BOARD

A total of 105 proceedings were commenced before the Board during the 1975-76 fiscal year: 97 by application, 4 by ministerial reference and 4 by letter request. Of the 97, 52 were expropriation applications of which 16 were subsequently withdrawn. A breakdown of proceedings completed during the fiscal year is as follows:

Under The Ontario Energy Board Act

	<u>Number of Proceedings</u>
Rates and other charges for gas	13
Unitization	1
Designation and authorization	2
Approval of storage contracts	5
Leave to construct transmission pipelines	6
Land expropriation for pipelines	36
Miscellaneous orders	12
Acquisitions	1
References by Ministers	3
References by Lieutenant Governor	1

Under The Municipal Franchises Act

Approval of gas franchises	5
	<hr/>
TOTAL	85
	<hr/>

Gas rates and Hydro matters again occupied most of the Board's time during the year. Other matters of importance included the approval of the reorganization of Northern and Central and the investment reference, both discussed later in this report.

In accordance with the Board's customary practice, hearings are held at locations convenient to interested parties. Twenty-four were held outside Toronto: at London, Chatham, Sarnia, Cayuga, Fort Frances and Aylmer.

NATURAL GAS

Rates

1. THE CONSUMERS' GAS COMPANY

The Phase II Proceedings

Phase II (rate design) proceedings in respect of a Consumers' main rate application were concluded by Reasons for Decision dated September 4, 1975. Interim rate relief had been granted to permit Consumers' to pass on 1.53¢ per Mcf on a non-refundable basis to all customers commencing April 2, 1975, to offset increases in its cost of gas purchased from TCPL. This was the fifth interim increase granted to Consumers' during the course of the main rate application.]

Phase II included a request for increased rates to prevent an alleged revenue deficiency developing in Consumers' 1975 fiscal year in relation to the fair rate of return found by the Board in its Phase I

decision. In rejecting this proposal, the Board observed that the earlier finding that 9.35% was a reasonable rate of return did not imply that anything less called for a prompt rate increase and anything more for a prompt rate reduction.

[In the Phase I decision, the Board had stated that it would expect Consumers' to support its rate design proposals with cost allocation studies and other evidence. It was pointed out in the Phase II decision that although the Board did not rely wholly on allocated costs as a basis for determining rate levels for customer classes, they were nevertheless of major importance.] There was lack of agreement among the parties as to the methods to be used in cost allocation studies and the weight to be given to the results. These issues related particularly to the question of whether a greater share of recent cost increases should be borne by residential and small volume commercial and industrial customers. Other major issues in the case included:

- (i) area rate differentials;
- (ii) range rates;
- (iii) reclassification of customers and reducing the number of blocks and the tilt in the open block schedules;
- (iv) multiple location billing; and

- (v) an automatic price adjustment clause having universal application.

Although the cost allocation studies showed over-contribution by large volume industrial customers, the Board said they were not being over-charged. The Board noted that the escalation clauses in their contracts did not provide for the passing on of cost increases other than increases in the cost of purchased gas and said that relief from some of the cost increases was a sufficient recognition of the results of the cost allocation studies.

The Board dealt with Consumers' proposed Rates Schedules Nos. 1, 3, 4, 6, 92, 93 and 94 as follows:

- (a) Proposed Rate 1 (residential) was reduced by 0.045¢ per Ccf. In addition, customers in the old Provincial Gas area were to receive a reduction of 1¢ per Ccf until September 30, 1976;

- (b) Proposed Rates 3 and 4 (flat rate residential water heating) were rounded down from \$3.03 to \$3.00 and from \$5.04 to \$5.00, respectively;

- (c) Proposed Rate 6 (commercial and industrial) was also reduced by 0.045¢ per Ccf and customers in the Provincial Gas area were to receive a reduction of 1¢ per Ccf until September 30, 1976;

(d) Rate 92 (special building heating and public authority) was to be discontinued as soon as the Applicant can terminate existing contracts;

(e) Rate 93 (special commercial and industrial) was continued temporarily and the rate policy under new contracts was to remain the same as in the past. The Board indicated that range rates would be eliminated as soon as practical; and

(f) Rate 94 (large volume processing) was revised to state the contractual rates actually charged to Cyanamid of Canada Limited.

The Board ruled that Consumers' should discontinue the billing concept of multiple location contracts upon expiry of present contracts. Consumers' sought and obtained approval to reduce the late payment penalty from 10% to 5% applicable to all customers; and to charge \$5.00 for reading meters on change of occupancy. The Board also ruled, in respect of a question raised by intervenors, that it did not have jurisdiction to fix the Applicant's charges for the rental of equipment.

The New Phase I Proceedings

In September, Consumers' brought a new application under section 19 of the Act. In its submission, the Applicant requested that deferred income taxes be recognized as a cost of service and that its investment in _/

Ontario gas exploration, development and production be included in rate base. The Applicant also sought interim rate relief to recover increases in the cost of capital, cost of gas purchased from TCPL, and other costs.

By Reasons for Decision dated November 24, 1975, the Board granted interim relief of 42.84¢ per Mcf to pass on increases in the cost of purchased gas. The Board also allowed, subject to possible later adjustment, an increase of 1.09¢ per Mcf to cover the cost of Consumers' Ontario exploration, development and production program. In other respects the interim application was denied.

In January, 1976, Consumers' again sought interim increases to recover sufficient revenue to earn a rate of return of 10.35% and to provide for the proposed change from flow-through to deferred income tax accounting. The application also requested correction of a minor error made in calculating the exploration, development and production costs used in calculating the increase granted earlier. In its decision of February 23, 1976, the Board allowed, subject to possible later adjustment, increases to enable the Applicant to earn a rate of return of 9.5%. The Board also accepted the correction to the exploration, development and production costs, but again denied an interim increase based on deferred income taxes.

On February 16, 1976, the evidence in the Phase I main hearing was completed and, by April 9, 1976, the Board had received written argument from counsel. The Board's deliberations on evidence and argument before it continue.

During the main hearing of Phase I, Cyanamid of Canada Limited, an intervenor, requested the Board to state a case in writing for the opinion of the Divisional Court in respect of the meaning and application of section 55 of The Public Utilities Act. In Reasons for Decision dated March 18, the Board denied the request and stated that the parties should await the Phase I decision.

2. UNION GAS LIMITED

The Phase II Proceedings

During the course of the Phase II (rate design) proceedings, by two applications dated April 17, 1975, Union requested interim rate increases of 2.99¢ per Mcf to recover purchased gas cost increases and 1.79¢ per Mcf to recover the increases in the carrying cost of gas in storage. The Board allowed, on a refundable basis, 2.47¢ per Mcf and 1.79¢ per Mcf, respectively.

The hearing of Phase II evidence was concluded on May 15, 1975. On October 31, 1975, the Board handed

down its Reasons for Decision. All interim rates then in effect were confirmed. The major issues and the Board's disposition of them were as follows:

(a) Uniform Rates

The Board granted Union's request to implement uniform rates throughout its system. The City of Windsor opposed implementation in one step and proposed a phasing-in of rate uniformity between Zones 1 and 2 over a five-year period. The Board did not consider that proposal reasonable and confirmed its earlier interim decision that rates should be uniform throughout the system.

(b) Range Rates

Proposed Rates 5, 6, 7, 10 and 11 provide for the negotiation of rates and charges between Union and the customer within established upper and lower limits.

In the test year ended March 31, 1973, there were about 135 customers served under range rate schedules, of whom 15 to 20 were large volume industrial customers using in excess of 5,000 Mcf per day. Intervenors took the position that because of changing conditions, the range rate policy was no longer appropriate. The Board decided that Union had not made a case for the

continuation of range rates in Rates 5, 6, 10 and 11 and directed it to develop specific rates to replace the range rates proposed as the contracts expire. With regard to Rate 7, the Board concluded that range rates should continue with the following modifications:

- (i) the schedule should provide that the negotiated rate be approved by the Board prior to any billing; and
- (ii) the schedule should provide that when the rate is approved, the contract should be filed with the Board and be accessible to the public.

(c) Proration of Interim Rate Increases

Union took the position that proration of consumption should not be ordered with respect to the January 1975 rate increases. The Board, however, disagreed and ordered Union to prorate, effective December 18, 1974, any consumption that would necessitate an adjustment of \$3.00 or more.

(d) Cost Allocation Studies

Three cost allocation studies were filed in this proceeding: each was developed on a fully-distributed cost basis using data for the test year consistent

with Phase I. Union's study indicated a significant undercontribution by the residential class; the study by the Industrial Gas Users Association showed an even larger undercontribution by the residential class and an overcontribution by large volume contract customers and other industrial and commercial customers; the study by R. A. Ransom, the Board's consultant, indicated an overcontribution by the general service class and undercontributions by both residential and large volume contract customers. Divergence in the results of three different cost allocation studies is not unusual. The Board, in its decision, stated:

" . . . the cost allocation studies filed in this proceeding indicate a direction in which rates should move but are not useful in quantifying, in dollar terms, the amount of the increase or the decrease in rates."

In summary, the Board considered that rate design should move towards cost-based rates and that the best method of accomplishing this is to adjust rates so that trends indicated by annual cost allocation studies can be interpreted and used to a much greater degree in rate design. |

On March 3, 1976, the Board met with all interested parties to settle the terms of the rate schedules and the order which then would finally conclude the proceeding. At March 31, 1976, the end of the year covered by this report, the Board's order had not yet been issued.

On March 3, the Board also heard a request by the City of Kitchener that the Board re-open and review its Phase II decision, essentially on the ground that additional information had come to light since the Board heard the Phase II application and that, had the Board been aware of such information, its decision in regard to the wholesale rate applying to Kitchener (Rate 9) might have been different. At March 31, the Board's decision on the request was pending.

The New Phase I Proceeding

On November 4, 1975, four days after the Board's Phase II decision, Union brought a new Phase I application. It contained some unusual features. One was a submission that customers of Union receiving gas at reduced rates under right-of-way agreements dating as far back as 1913 be required to pay for their gas at the regular rate. Union also requested that customers receiving gas without charge because of old oil and gas leases or franchise agreements be required to pay for their gas at the regular rate. These portions of the application attracted a substantial number of interventions by those customers affected. The Board recognized that a jurisdictional issue is involved and proposed to hear argument after the completion of Phase I and before the commencement of Phase II.

The hearing commenced on December 8, 1975, at which time the Board dealt with an interim application to authorize Union to recover increases in the cost of gas purchased from TCPL, Panhandle Eastern Pipeline Company and Ontario producers, and higher carrying costs on its investment in gas in storage. Union estimated that the 42¢ per Mcf rate increase from TCPL would amount to \$101,300,000 on an annual basis or \$277,000 per day, the largest cost increase in Union's history. In percentage terms the cost increases from Panhandle and Ontario producers were substantial although the dollar amounts were comparatively small, since most of Union's gas supply is purchased from TCPL.

The Board approved on a refundable basis the following increases to Union's customers:

(a) effective January 1, 1976, with respect to all gas sold to customers who purchase gas under contracts containing escalation clauses, the full amount of the increases allowed in the purchased cost of gas which Union may pass on under the escalation clauses; and

(b) effective with consumption on and after January 23, 1976, with respect to all other customers, an increase of 41.11¢ due to increases in the cost of purchased gas and 2.35¢ per Mcf because of the increased carrying cost of gas in storage, for a total increase of 43.46¢ per Mcf.

Union's evidence on the Phase I main hearing was prepared on the basis of a prospective test year ending March 31, 1976. Accordingly, the financial data initially filed contained 6 months actual results and 6 months estimated figures. It was later updated to include 9 months actual and 3 months estimated. Using the updated figures, Union calculated its total cost of service, including a fair rate of return of 10.66% on its proposed rate base of \$479,319,000, to be \$423,841,000. On an annualized basis Union's current rates and other utility income generate only \$397,492,000. Consequently, the requested revenue increase was \$26,349,000.

The Board arranged for completion of the hearing of evidence on Phase I by April 5 and completion of argument by May 28, 1976.

3. Northern and Central Gas Corporation Limited

On May 9, 1975, the Board handed down its Phase I reasons for decision in respect of Northern and Central's rate base, return thereon and reasonable return. The Board determined that the rate base for the test year ended December 31, 1973, was \$130,624,885. The Board also determined that the existing rates produced a return thereon of 9.66% whereas a return of 9.51% should be reasonable.

Because the Ontario utility is an operating division of the corporation it has no specific capitalization of its own. The Board therefore determined a hypothetical capital structure that would be appropriate if the operating division were standing on its own. The capital structure determined by the Board, together with the rate of return found to be reasonable on each component of capital, and a determination of the composite rate of return, was as follows:

<u>Capital Component</u>	<u>Capital Structure</u>	<u>Rate of Return</u>	<u>Allocation</u>
Long-term Debt	52.06%	7.70%	4.01%
Preference Share Capital	8.78%	5.75%	0.50%
Accumulated Tax Deferral	4.40%	3.00%	0.13%
Common Share Equity	34.76%	14.00%	4.87%
	<u>100.00%</u>		<u>9.51%</u>

The Board allowed Northern and Central a total revenue requirement of \$82,623,678, made up of costs and expenses of \$70,201,251 and \$12,422,427, as a return of 9.51% on rate base. Since total revenues were deemed to be \$82,817,228, the Board calculated that Northern and Central had excess earnings of \$193,550 in the test year.

The Board considered this excess to be relatively small and did not require Northern and Central to make adjustments or refunds.

On September 30, 1975, Northern and Central applied for interim increases to enable it to pass through increases effective November 1 in its cost of gas purchased from TCPL. In its fifth interim decision since the commencement of the main application, the Board allowed the Company surcharges of:

Western Region	39.475¢ per Mcf
Northern Region	42.046¢ per Mcf
Eastern Region	45.528¢ per Mcf

on all gas sold on or after November 8, 1975, and before February 1, 1976. This interim order was later extended to April 5, 1976, when the Phase II hearing was scheduled to commence.

4. OTHERS

In November, 1975, the Board granted interim rate increases to Inter-City Gas Limited ("Inter-City") to pass on increased gas costs. These, together with interim increases that had been allowed in January, 1975, and that were also due to increased gas costs, amounted to about 61¢ per Mcf.

The decision in the main application was handed down on March 22, 1976. The Board found the reasonable rate of return to be 11.69% on a hypothetical 60-40 debt-equity ratio. Revenue deficiency, excluding that produced by further gas cost increases, was \$13,668. In the result the interim increases were confirmed, rates to rate schedule customers were increased by 2.62¢ per Mcf and the contractual commodity rate applying to Inter-City's special contract customer was overridden and increased by 0.368¢ per Mcf.

The Medina Natural Gas Company, Limited ("Medina") was granted interim rate increases in February, 1976, due to increased gas costs. Together with interim increases allowed in January, 1975, because Medina was selling gas at a loss, the interim increases averaged \$1.83 per Mcf based on a consumption of 10 Mcf per month. The Central Development Company, Limited ("Central"), whose gas distribution system is operated by Medina, was also granted interim increases in February of 1976 to pass on increased gas costs. Together with increases that had been granted without a hearing just prior to the commencement of the fiscal year, these totalled 82¢ per Mcf.

Other gas rate matters involving small utilities were also dealt with without a hearing. Wellandport Gas Company Limited received an increase in February of 1976.

Also, prior to the commencement of the year under review, Farmers' had received an increase and Tecumseh Gas Storage Limited a decrease. Applications by Moffat Lake Explorations Inc. and Tuckersmith Gas Inc. remain to be disposed of.

Accounting Orders

As a result of the 1974 Phase I Union decision and a request by Union, the Board issued four accounting orders in April, 1975. These approved revised depreciation rates, amortization of hearing costs and deferred gas costs and amortization of part of the premium paid to acquire United Gas Limited. Then, in May of 1975, the Board issued to Union an accounting order determining the appropriate accounting treatment of the 10% federal income tax surcharge.

In September, 1975, Consumers' requested accounting approval to amortize extraordinary plant losses not previously covered by accounting orders issued by the Board. The Board granted such approval without prejudice to its ratemaking treatment of profits on the sale of land associated with the extraordinary plant losses.

Late in 1975, Northern and Central requested an order approving the accounting treatment of its depreciation rates and deferred gas costs in conformity with the May Phase I rates decision. The order was issued in February, 1976.

Unitization

By decision dated February 23, 1976, the Board unitized the various interests within the Dawn 4-28-3 Pool, located in Dawn Township, Lambton County, for the purpose of drilling and operating gas wells and the apportioning of costs and benefits. Union was designated manager of the unit operation.

The unitized area consists of 262.5 acres, 99.63 of which form the participating area. The initial recoverable gas reserves have been estimated to be 0.2 Bcf.

Gas Storage

Upon application by Union, the Board, on July 9, 1975, recommended to the Lieutenant Governor in Council that some 250 acres be added as protection for stored gas to the previously designated storage area known as the Bickford Pool, Sombra Township, Lambton County. Such additional lands were designated by Ontario Regulation 632/75 filed July 31.

Union also applied to designate as a gas storage area some 457 acres, known as the Rosedale Pool, in Enniskillen Township, Lambton County, and the Board so recommended. The lands were designated by Ontario Regulation 708/75 filed September 2.

After each designation the Board issued an order authorizing Union to inject gas into, store gas in and remove gas from the designated area. Union now operates nine designated gas storage areas with a total working capacity of about 75 Bcf at original discovery pressures.

It was indicated in the last previous annual report that the Board had approved the parties, term and storage in respect of an agreement whereby Union would store gas for Lowell Gas Company ("Lowell") of Lowell, Massachusetts. The capacity dedicated to Lowell was made subject to rights of first and second refusal by Ontario distributors and TCPL. In April, 1975, the National Energy Board issued licences permitting Canadian Lowell Gas Limited to import and export the gas in question. One of the licences was conditioned upon the licensee, when advised by the National Energy Board that the transportation or storage facilities are required for use by any person in Canada, restricting the importation of gas into Canada during such times and in such quantities as are designated by that Board. In November, however, the Federal Power Commission denied Lowell authorization to export and import the gas. The project will not proceed unless this decision is reversed.

During the year under review, the Ontario Energy Board approved the parties, term and storage in respect of agreements whereby Union would store gas for the Kingston Public

Utilities Commission ("Kingston PUC"), Gaz Metropolitan, inc. ("GMI") and Northern and Central.

The Kingston PUC agreement is for a maximum term of 20 years and provides for a maximum storage balance of 0.1 Bcf during the definite term of six years.

The GMI agreement is also for a maximum term of 20 years. It provides for a definite term of five years and a maximum storage balance of 4.5 Bcf. It also provides that:

(a) Ontario distributors and TCPL have the right of first and second refusal of the contracted capacity after the expiry of the definite term; and

(b) Union could temporarily suspend GMI's storage rights after March 31, 1978, in the event that Ontario gas consumers face a short-term emergency.

The International Nickel Company of Canada, Limited ("Inco") intervened in the April 1975 application in respect of an agreement whereby Union would store gas for Northern and Central to augment Northern and Central's winter service capabilities. Inco alleged that the Board should condition its approval so that part of the storage would be used for Inco's benefit. During the course of the hearing, the Board stated that it would not consider the approval of a storage agreement that would in effect allocate storage capacity to

a customer of a distributor. Counsel for Inco thereupon served an application for judicial review and the Board adjourned the hearing. On May 8, 1975, the Supreme Court of Ontario ruled that the Board had not refused to hear and determine the issues and dismissed the application for judicial review. The hearing before the Board then proceeded to its conclusion. On July 11, 1975, the Board dismissed the application, holding that there is a possibility that approval of the parties to the agreement would have the effect of approving Inco as a party, directly or indirectly.

Union then filed an application to approve a new agreement with Northern and Central. The application was granted. The agreement, as amended, is for a maximum term of 15 years. It provides for a definite term of five years and a maximum storage balance of 3.5 Bcf.

Pipelines

During the year under review the Board granted leave orders to Union:

(a) to commence construction of the second phase of the 42-inch transmission line to loop the Dawn-Trafalgar lines from the Dawn Compressor Station to the Strathroy Gate Station. The second phase extends 12 miles from the Enniskillen Valve Site to the Brooke Valve Site in Lot 24, Concession 9, Brooke Township, Lambton County;

(b) to replace a major portion of the 12-inch Dominion transmission line from Ridgetown to Payne's Mills. The replacement consists of 13.8 miles of 8-inch line and 26.8 miles of 6-inch. It is generally located along the line it replaces;

(c) to construct a transmission line and facilities to connect the Terminus storage pool to Union's 24-inch Bickford Line at Lot 23, Concession XI, Sombra Township, Lambton County. The line consists of 2,800 feet of 24-inch pipe, 6,400 feet of 20-inch line, and metering facilities; and

(d) to construct a metering station in Lot 26, Concession 8, Moore Township, Lambton County.

The Board also heard two other applications by Union to construct five additional 42-inch looping sections of its Dawn-Trafalgar transmission lines; 15.5 miles were proposed to be constructed in 1976, 8.5 miles in 1977 and 22.5 miles in 1978. As at March 31, 1976, the Board had not rendered its decisions.

In May of 1975, the Ontario Municipal Board rendered its decision approving Dawn Township's restricted area By-law 40 of 1973 as amended by By-law 52 of 1974. The By-law sets out a corridor concept for the construction of transmission lines. It provides that they are to be laid only in corridors 200 feet wide

running along half lot lines in a north-south direction and along concession lines in an east-west direction, across but not along a township, county or provincial road or highway. Union and Tecumseh Gas Storage Limited appealed the decision to the Divisional Court. Leave to appeal was granted on November 25, 1975, but the appeal had not been heard as of March 31, 1976.

Expropriations

Thirty-six orders authorizing Union to expropriate land for transmission line easements were issued during the year. Eleven of these were to provide extra width for a limited time to facilitate construction of the pipeline. The Board holds these expropriation hearings in the local areas to encourage presentation of evidence by the landowner.

Twenty-five of the 36 were in respect of the second phase of the Dawn-Strathroy 42-inch loop line, nine in respect of the North Chatham line which the Board granted leave to construct prior to the fiscal year and the remaining two in respect of the line to connect the Terminus Pool to the Bickford Line.

Exemptions

Three exemption orders were issued by the Board for transmission pipeline construction under section 38(3) of the Act.

One was granted to Polysar Limited for the construction of several lines to carry various hydrocarbons from the facilities of Petrosar Limited in Lot 24, Concession X, Moore Township, Lambton County, including substitute natural gas to the metering station in Moore Township that Union was granted leave to construct.

An exemption was also granted to Union for the construction of some 900 feet of 2-inch natural gas pipeline to replace part of an existing 12-inch Dominion line in Lot 18, Concession 3 W.C.R., Harwich Township, Kent County. An exemption had also been granted in 1974 to replace part of the line.

The other exemption was granted to Petrosar Limited for the construction of two miles of 30-inch line from the Interprovincial Pipe Line Company crude oil line in Lot 24, Concession XII, Moore Township, to the facilities of Petrosar Limited.

Franchises and Certificates

In April of 1975 the Board approved Consumers' franchise for the Town of Fort Erie. The town had been originally served by a predecessor, Provincial Gas Company Limited.

Consumers' franchises for The Town of Pickering, The Town of Ajax and the City of Brampton were approved

in October, 1975. Consumers' had previously been franchised in these areas. However, because of the municipal reorganization resulting from The Regional Municipality of Durham Act, 1973, and The Regional Municipality of Peel Act, 1973, the individual areas of the new franchises do not coincide with those of the old.

The renewal of Union's franchise for the Town of Wallaceburg was approved by the Board on March 30, 1976.

As part of each of the approval orders, the Board declared and directed that the assent of the municipal electors to the by-law granting the franchise was not necessary.

Discontinuance of Service

In July, 1975, Union applied for leave to discontinue distributing gas to 116 customers on 22 sections of line in the Regional Municipalities of Haldimand-Norfolk and Hamilton-Wentworth. The application followed upon the discontinuance proceeding reported in the Board's 1973 annual report.

The lines in question are former gathering lines of Dominion Natural Gas Company, Limited. Union purchased the Dominion system, including gas wells, in 1958. All the wells had been abandoned or sold by 1972.

Hearings were held in Cayuga in November, 1975, and February, 1976. As at March 31, 1976, the Board had not reached a decision.

Acquisitions

1. Newco Ltd.

In May the Board reported to the Lieutenant Governor in Council on the application of Newco Ltd. ("Newco") to acquire the outstanding voting shares of Northern and Central. The application was necessary as part of a corporate reorganization whereby the voting shareholders of Northern and Central would transfer their shares to a new company, Newco, in exchange for comparable shares of Newco, thus making Newco the parent company of Northern and Central, and Northern and Central would transfer its holdings in securities of Canadian Industrial Gas & Oil Limited ("Cigol") and Coleman Collieries Limited, resource companies, to Newco in exchange for an unsecured promissory note. These steps would be followed by a statutory amalgamation of Newco and Cigol to form the final result, Norcen Energy Resources Limited, an Alberta company that would hold the properties and interests of Cigol and be the parent company of Northern and Central.

The Board recommended to the Lieutenant Governor in Council that leave be granted, subject to conditions.

By Order-in-Council 2116/75, dated July 30, 1975, leave was granted, subject to conditions recommended by the Board and to other conditions.

2. The Central Development Company, Limited

Just prior to the commencement of the fiscal year, the Board reported to the Lieutenant Governor in Council on the application of Central to sell its gas distribution system to Medina for \$14,500. As at March 31, 1976, there had been no decision on the matter.

INVESTMENT REFERENCE

Order-in-Council O.C. 3100/74 was mentioned in the Board's 1974 annual report. It required the Board to examine and, after a public hearing, report on various aspects of the question of customer rate support for investments or expenditures by Ontario gas distributors to secure additional future gas supplies for Ontario.

In preparation for the hearing, Board personnel visited the offices of the Federal Power Commission, the State of New York Public Service Commission and the California Public Utilities Commission for discussions with officials of those commissions and communicated with officials of those commissions and communicated with other regulatory bodies. Staff of the Board set forth

their findings in the form of a report which was filed in evidence at the hearing. The firm of Coopers & Lybrand, chartered accountants, assisted the Board by analysing the initial submissions and filing a report on the sharing of risks and benefits between customers and shareholders.

The hearing was completed in October, 1975. Those actively participating were:

The Alberta Gas Trunk Line Limited and
The Alberta Gas Trunk Line (Canada) Limited
The Association of Municipalities of Ontario
Canadian Arctic Gas Pipeline Limited
Committee for an Independent Canada
The Consumers' Gas Company
Foothills Pipe Lines Ltd.
Industrial Gas Users Association
Northern and Central Gas Corporation Limited
Panarctic Oils Ltd.
TransCanada PipeLines Limited
Union Gas Limited

During the hearing, the Board was privileged to have both the President and the Chief Gas Engineer of the California Public Utilities Commission give evidence as a courtesy to the Board. Their evidence related to the California policy and practice regarding customer support for gas supply investments.

The Board reported to the Lieutenant Governor in Council in February, 1976. The Board did not consider that it was being asked to report on the merits of the policy of customer rate support for investments but rather on how the policy ought to be administered assuming it were adopted. It became apparent at the hearing that the immediate concern of the distributors was customer support for investments in Canadian Arctic Gas Study Limited and Canadian Arctic Gas Pipeline Limited.

In its report the Board gave opinions and made recommendations in regard to, among other issues, limitations on amounts of expenditures, sharing of risks and benefits, regulatory treatment and financing, procedures and legislative change. It is not known yet whether the policy will be implemented in Ontario.

STEAM RATES

By virtue of The Town of Ajax Act, 1960, the Ontario Energy Board, being the successor to the Ontario Fuel Board, has jurisdiction to approve a tariff of maximum steam rates to be charged by Industrial Steam Limited ("Industrial Steam"), of Ajax.

Industrial Steam first came before the Board before the commencement of the year under review and, by order issued April 14, 1975, the Board approved the Company's

then existing rates, together with a fuel adjustment clause, as its interim tariff of maximum rates effective for a period of not more than one year.

In January of 1976, Industrial Steam applied for approval of a new maximum tariff providing for increased rates and a change to its fuel adjustment clause. The hearing was in progress at the end of the year under review.

ONTARIO HYDRO

By reference dated May 2, 1975, under section 37a of the Act, the Minister of Energy required the Board to investigate, examine and report on the proposal of Hydro to increase by about 30% the bulk power or whole-sale rates it proposed to charge in 1976 the 353 municipal electric utilities and its 99 direct industrial customers having an average monthly power demand of 5,000 kilowatts or more. The reference requested the Board to include, to the extent necessary, a review of:

- (a) measures instituted or proposed by Ontario Hydro to promote efficiency and productivity;
- (b) the appropriateness of increasing the level of equity financing for systems expansion as opposed to borrowing more in the capital markets;

- (c) the size and use of financial reserves, the recovery of operating deficits from particular customer classes, and the nature of and need for 13th Bills;
- (d) demand and energy components of the bulk power rates;
- (e) discounts and service conditions applicable to interruptible and furnace loads;
- (f) interchange policy and pricing;
- (g) interest capitalization policy;

and to review with Hydro the progress of Hydro's studies relating to:

- (1) inter-utility productivity comparisons;
- (2) depreciation and asset lives;
- (3) alternative systems of cost allocation and pricing, including charges for non-common and specific facilities;
- (4) allocation of overhead costs;
- (5) price elasticity of demand and its relation to load growth; and
- (6) value to customers of different levels of reliability and standards of service, and their effects on system costs.

The hearing commenced on June 9, 1975, and concluded on September 15, after 55 sitting days. After release of the July 7, 1975, Ontario mini-budget which

called on Hydro to exercise constraint, Hydro reduced its proposed rate increases to about 25%. Intervenors included industrial power users, municipal utilities, municipalities, and individuals.

On September 2, 1975, the Board made an interim report to the Minister containing a summary of Hydro's submission as tested by cross-examination. The Board expressed the opinion that Hydro had made a prima facie case to support a rate increase.

The Board submitted Part I of its final report on October 10, 1975, and Part II on February 4, 1976. In Part I the Board recommended increases of about 27% for Hydro's 1976 rates. The Board stated that the 2% in addition to Hydro's amended proposal would enable Hydro to avoid a \$16 million revenue deficiency and to preserve its financial integrity.

The following observations and recommendations further highlight the final report:

(a) The amount of the charge to be included in the export price of electricity to recover social costs should be the subject of continued study and investigation.

(b) The Board cautioned against Hydro relying on revenue from the sale of surplus electric energy to neighbouring United States utilities because such sales

are subject to wide variation due to economic factors over which Hydro has no control. Rather, Hydro's objective should be to secure sufficient revenue from its Ontario customers to cover all costs incurred in serving them. Profits from export sales should be viewed as extraordinary income to be applied against any revenue deficiency that may occur from year to year and to assist in financing the expansion of the system.

(c) Regarding Hydro's 1975 work program budgets, it was recommended that Hydro should be held publicly accountable in some manner for the amount by which the estimated cost to complete a major facility exceeds the budget established at the time the project was approved by the government. To avoid the inconsistency of examining a current year's budget in relation to a rate proposed for the year following, the Board suggested that a more practical approach would be for greater emphasis to be placed on the forecast of costs that are associated with the rate year in question.

(d) If the concept of the power district is to be retained, the Board recommended that Hydro seriously consider sub-dividing the power district on a geographical basis in such a way that each sub-division is more comparable to a municipal utility so that the contribution to total system diversity of each entity is

properly recognized and would result in a more equitable sharing of diversity benefits.

(e) Hydro's prime responsibility is to provide electrical service to its customers in accordance with its commercial mandate. If, in the view of government, Hydro is able to serve as an instrument in the implementation of policies intended to better the economic and social well-being of Ontario, then Hydro should be so instructed by the government.

(f) The Board recommended that discussions on the nuclear agreement with Atomic Energy of Canada Limited should be continued with a view to reducing the amount of payback to a level more in keeping with the intent of the original agreement, which the Board interpreted as implying that the payback should be limited to the recovery of the original capital investment plus a reasonable return thereon.

(g) The Board expressed concern with the deteriorating trend in Hydro's debt-equity ratio and concluded that Hydro must generate more revenues for capital expenditures from rates. The Board urged that neither the debt retirement charge nor the system expansion charge be reduced below the level proposed for 1976, the principal purpose of each being to provide a source of funds to finance the expansion of the business.

(h) The Board recommended a series of public hearings and inquiries to examine, among other matters: the

efficiency and productivity of the organization; the validity of medium-term system expansion plans in terms of realistically required reserves and economic investment choices; the financial policy in general and pricing policy in particular; the economic and social role Hydro does and should play in the Province; and the environmental impact and social costs of Hydro.

On an experimental basis and for the 1976 hearing only, the Board recommended that the rate review reference specifically exclude long term forecasts beyond three years.

The Board's recommendations are not binding on Hydro. On October 22, 1975, Hydro advised the Minister that it intended to implement rate increases of about 25% in accordance with its amended proposal. On October 30, the Hydro proposal and the Board report were referred to a Select Committee of the Legislature for review in light of the then recently announced federal anti-inflation program and the Ontario commitment to it. In its interim report of December 12, 1975, the Select Committee recommended a 22% increase to be effective on January 1, 1976. This recommendation was accepted and implemented by Hydro. The final report of the Select Committee had not been submitted as at the end of the year under review in this report.

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Ontario Energy Board

ANNUAL REPORT

FISCAL YEAR ENDED MARCH 31, 1977

ANNUAL REPORT

FISCAL YEAR ENDED MARCH 31, 1977



SEVENTEENTH ANNUAL REPORT

OF THE

ONTARIO ENERGY BOARD

FISCAL YEAR ENDED MARCH 31, 1977



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Ministry of
Energy

416/965-4286

Queen's Park
Toronto Ontario

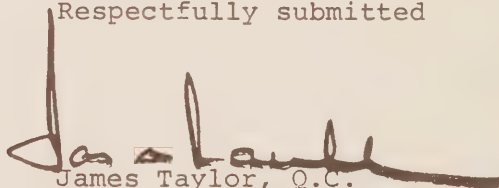
TO THE HONOURABLE PAULINE M. McGIBBON
O.C., B.A., LL.D., D.U.(OTT)

Lieutenant-Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the Seventeenth
Annual Report for the Ontario Energy Board for
the fiscal year ended March 31, 1977.

Respectfully submitted



James Taylor, Q.C.
Minister

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ONTARIO ENERGY BOARD

ANNUAL REPORT

Fiscal Year Ended March 31, 1977

INTRODUCTION

During the fiscal year ended March 31, 1977, there continued to be a heavy call on the Board's decision-making and reporting duties. The principal matters dealt with were again rate proceedings involving the three major natural gas distributors and Ontario Hydro. These, as almost all proceedings before the Board, require public hearings.

The Board completed the Phase I (rate base, return thereon and reasonable return) portions of the major rate applications of The Consumers' Gas Company ("Consumers'") and Union Gas Limited ("Union"). The Board also completed an update of the Phase I decision for Northern and Central Gas Corporation Limited ("Northern and Central"). Phase II (rate design) proceedings were in progress for the three distributors at the end of the fiscal year. These rate applications have resulted from continued escalation of the costs of gas and distribution.

As part of these proceedings, the Board heard applications for interim rate relief required principally to recover increases in the cost of gas purchased by the

distributors from TransCanada PipeLines Limited ("TransCanada"). These increased gas costs resulted from the Toronto city-gate price of natural gas being increased from \$1.25 per Mcf (thousand cubic feet) to \$1.405 per Mcf on July 1, 1976, and to \$1.505 per Mcf on January 1, 1977, by amendments to the Natural Gas Prices Regulations under the Petroleum Administration Act (Canada).

The Minister of Energy again referred to the Board for investigation and report the bulk power rates of Ontario Hydro ("Hydro"), in this case those proposed for 1977. The Ontario Energy Board Amendment Act, 1976, S.O. 1976, c. 21, had received Royal Assent on April 14, 1976. The effect of this amendment was to shorten the time for dealing with Hydro's proposal for 1977 bulk power rates. As the proposal has now been dealt with, the amendment is spent.

Later, the Minister of Energy also referred to the Board for investigation and report the principles of power costing and pricing appropriate for Hydro. Although the hearing will not commence until May, 1977, the Board and its staff have done considerable preparatory work during the fiscal year.

The Board has jurisdiction to authorize, in the public interest, the construction of pipelines carrying hydrocarbons, pipeline facilities and related expropriation of land. Having regard to the numerous factors that affect

the overall public interest, during the fiscal year the Board, in cooperation with several Ministries, prepared a document dated September, 1976, and called "Environmental, Agricultural and Resource Guidelines for the Construction and Operation of Pipelines in the Province of Ontario". Applicants to the Board will be expected to comply with the Guidelines and to provide related evidence.

On December 29, 1976, the Uniform System of Accounts for Gas Utilities Class "A" was amended to increase the allowable annual rate revenue of a gas utility from \$250,000 to \$1 million without the utility being classified as a Class "A" gas utility. The effect of the amendment is that The Medina Natural Gas Company, Limited remains exempt from the Uniform System of Accounts.

The Ontario Energy Board Amendment Act, 1975 (2nd Session), S.O. 1975, c. 8, which received Royal Assent on December 13, 1975, had not been proclaimed by the close of the fiscal year. The amendment would authorize the Board to require and implement allocation plans for gas distributors in the event of gas shortages.

The Ontario Energy Board Amendment Act, 1976 (Bill 109) received first reading on June 15, 1976, but was not proceeded with further. The Bill would authorize customer support for certain gas supply related investments by gas

utilities. It resulted from recommendations of the Board in a report to the Lieutenant Governor in Council last year.]

COMPOSITION OF THE BOARD

At the end of March, 1977, the Board consisted of nine members, namely:

A. B. Jackson, Q.C.	Chairman
I. C. MacNabb, P.Eng.	Vice-Chairman
W. W. Stevenson, Ph.D.	Member
S. J. Wychowanec, Q.C.	Member
H. R. Chatterson, B.Comm.	Member
J. C. Butler, P.Eng.	Member
J. R. Dunn, P.Eng.	Member
D. M. Treadgold, Q.C.	Member*
J.A.W. Whiteacre, Q.C.	Member*

The Board regrets the sudden death of one of its members, Mr. R. H. Lamb, in September, 1976. In October, Mr. G. W. Clayton, a part-time member, resigned from the Board. During the fiscal year the Board was strengthened by the addition of Mr. Butler, former Director of Operations for the Board, and by Mr. Dunn. Dr. Stevenson will be assigned to the Royal Commission on Electric Power Planning for most of the 1977-78 fiscal year.

The principal staff of the Board were:

Board Secretary	S.A.C. Thomas
Energy Returns Officer and Manager, Financial Analysis	O. J. Cook
Director of Operations	D. D. McLean

*Part-time

Board Solicitor	L. Graholm
Special Projects Officer	D. R. Cochran
Manager, Engineering	C. J. Mackie
Board Engineer	H. Strozyk
Manager, Rate Design	Dr. M. Jackson
Financial Analyst	A. Meddows-Taylor
Financial Analyst	A. Parekh

In May, 1976, Miss Ivy C. Fidler, who had been associated with the Board and its predecessor, the Ontario Fuel Board, since the inception of the latter Board in 1954, retired as Secretary to the Ontario Energy Board.

SUMMARY OF PROCEEDINGS BEFORE THE BOARD

One hundred seven proceedings were commenced before the Board during the 1976-77 fiscal year: 98 by application, 5 by ministerial reference and 4 by letter request. A classification of proceedings completed during the fiscal year is as follows:

Under The Ontario Energy Board Act

	<u>Number</u>
Rates and other charges for gas	27
Leave to construct pipelines	2
Land expropriation for pipelines	24

	<u>Number</u>
Miscellaneous orders	6
Acquisitions	1
References by Ministers	4

Under The Municipal Franchises Act

Approval of gas franchises	40
Certificates	<u>1</u>
TOTAL	<u>105</u>

As in the past, hearings were held at locations convenient to interested parties. Twenty-seven were held outside Toronto: at London, Sarnia, Fort Frances and Mount Forest. Of these, 24 were expropriation hearings.

ANTI-INFLATION PROGRAM

Because of section 4.1 of the Anti-Inflation Act (Canada), the Board has been applying the Anti-Inflation Guidelines in regulating the rates of gas distributors. The Board also applied the spirit and intent of the Guidelines, as prescribed for Ontario Hydro by the Provincial Government, in reporting on the bulk power rates of Hydro. Specifically, in each case the Board tested proposed rates by the profit margin rules set out in section 18 of the Guidelines.

However, both the Kingston Public Utilities Commission and the City of Kitchener have gas distribution operations which are not regulated by the Board. The Government felt that these utilities too should be subject to the Anti-Inflation Guidelines in the same way as other gas utilities. This was accomplished by their agreeing to voluntarily submit to price monitoring by the Energy Returns Officer of the Ontario Energy Board.

In each case the utilities are complying with section 18 of the Anti-Inflation Guidelines.

NATURAL GAS

Rates

1. THE CONSUMERS' GAS COMPANY

Phase I Proceedings

Reasons for Decision dated June 30, 1976, marked the conclusion of Phase I proceedings initiated by the main application of September, 1975, to determine Consumers' rate base, the return thereon and a reasonable return. 2

The test year was the fiscal year ended September 30, 1974. During the proceedings the Applicant also submitted figures for rate base and utility income for the fiscal year 1975 and 1976 estimated.

The Board made the following findings:

	<u>1974</u>	<u>1975</u>	<u>1976</u>
Rate Base	\$555,496,100	\$594,712,100	\$641,298,700
Utility Income	\$ 46,945,600	\$ 51,109,900	\$ 55,583,500
Indicated Rate of Return	8.45%	8.59%	8.67%*

The Board approved the inclusion of Ontario exploration, development and production activities, with the exception of the Hudson Bay activities, in rate base. This included

*Before adjusting for the February 1976 interim rate increase.

the Crowland Area development costs which had been excluded from rate base in the Board's earlier Phase I decision of July 9, 1974. The Board concluded that Underwater Gas Developers Limited, a wholly-owned subsidiary of Consumers' carrying on drilling operations, should be consolidated with Consumers' and its two other subsidiaries for regulatory purposes, and directed Consumers' to provide figures on that basis for future major rate applications.

Contrary to its earlier decision, the Board allowed joint clamping costs to be expensed rather than capitalized in order to provide consistency between accounting and rate-making treatment.

The Board denied Consumers' request to recognize deferred income taxes as a cost of service but accepted the tax allocation accounting approach followed by the Company for certain short-lived assets and for the assets related to exploration, development and production activities.

The Board found that a reasonable rate of return on rate base for Consumers' is 10.1 percent determined, after rounding, as follows:

<u>Capital Component</u>	<u>Percentage</u>	<u>Rate</u>	<u>Component</u>
Long-term debt	55.7	8.27%	4.61
Deferred taxes	3.1	1.56%	0.05
Preferred shares	5.1	7.31%	0.37
Common equity	<u>36.1</u>	14.00%	<u>5.05</u>
TOTAL	<u>100.0</u>		<u>10.08%</u>

The Board determined the revenue deficiency, using fiscal 1976 figures adjusted for the February 1976 rate increase, to be \$6,572,900.]

Recognizing that it is beyond its jurisdiction to specifically prohibit the attachment of new customers by Consumers', the Board strongly suggested that Consumers' not make extensions to its existing system unless the revenue to be generated by the new business provides a return on the marginal investment at least as great as that allowed by the Board on rate base with full provision for incremental costs associated with the new business.

[The Board confirmed all interim rate increases granted during the course of the Phase I hearing.]

Interim Proceedings

By an application dated May 25, 1976, Consumers' applied to amend its main application to seek approval of, inter alia, across-the-board rate increases to recover the added cost of 15.89¢ per Mcf for its basic supply of gas from TransCanada effective July 1, 1976.

The Board granted the interim rate relief and stated that, in its opinion, the Guidelines under the Anti-Inflation Act (Canada) were complied with. The Board agreed with the Company's proposal to delay passing on the benefits of gas storage inventory until the determination of an

appropriate implementation date for the passing on of the January 1, 1977, increase that had been announced by the Federal Government.

The May 1976 application also sought rate increases to recover any revenue deficiency determined in Phase I. As indicated, the Board found a deficiency of \$6,572,000.

Consumers' submitted that the deficiency be recovered by new rates which move in the direction indicated by the Board in its earlier Phase II decision. In its decision of September 24, 1976, the Board accepted Consumers' rate proposals, with the exception of a rate deviation clause, subject to possible refund or adjustment.

In its decision the Board stated the general principle that an interim proceeding is an inappropriate time for partial adjustment of Phase I calculations.

In a supplementary decision later in the month, the Board approved an interim rate schedule applicable to Ontario Hydro's R. L. Hearn Generating Station, as Hydro's contractual rate could not be accommodated by the previously-approved schedules.

The May 1976 application also requested interim rate increases to recover increased gas costs due to the announced January 1, 1977, increase in TransCanada's rates. Consumers' submitted that these costs should be passed on by increasing all rates by 9.09¢ per Mcf on a straight commodity basis effective February 24, 1977.

In its decision of January 21, 1977, the Board noted that the Company had changed its method of determining the effective date of gas cost increases so that all inventory gas is deemed to flow out of storage and the problem of unrecycled gas therefore will not arise in the future.

The Board considered increases in storage and transportation charges payable to Union as an expense which should not be absorbed by Consumers' but provided for in setting the effective date of the rate increase. The Board granted the requested relief subject to possible refund or adjustment, but, after adjusting for previously unaccounted-for credits for gas inventory, changed the proposed effective date to March 6, 1977.

Phase II Proceeding

The May 1976 application also requested that Phase II (rate design) of the main application be brought on for hearing.

The hearing commenced on October 7, 1976, and was completed on December 22, after 16 sitting days. All argument was submitted by February 28, 1977. As at March 31, 1977, the Board was deliberating on the evidence and argument before it.

2. UNION GAS LIMITED

Phase I Proceedings

On April 12, 1976, the Board refused the request of the City of Kitchener that the Board re-open and review its October 1975 Phase II decision insofar as the wholesale rate applying to Kitchener is concerned.

On June 30, 1976, the Board handed down its Phase I decision in respect of Union's November 1975 main rates application.

The Board accepted the 1976 fiscal year (ended March 31, 1976) as the test year. The financial data available for this period were nine months actual figures and three months estimated. The Board directed Union to file annually on or before April 1 with the Energy Returns Officer its forecast of expenses for the forthcoming year, and its forecast of capital expenditures for a three-year period.

Rate base was determined to be \$467,037,000 and reasonable rate of return 10.14 percent. The latter figure was determined from the cost of the various components of capital, as follows:

Long-term debt	8.53%
Preference shares	7.18%
Common equity	14.50%

Test year utility revenue annualized for interim rate increases was \$397,557,000. The total cost of service,

including a fair return, was determined to be \$413,980,000. Consequently, the revenue deficiency found by the Board was \$16,423,000.

[The Board found that the accumulated depreciation shown by Union was adequate and that Union's claim of \$79,612,000 for gas in storage and in line pack should be reduced by \$7,282,000 in order to reflect the combination of the average volumes in the test year and in the projected 1977 fiscal year.]

The Board determined that short-term debt, which amounted to \$67.1 million, should not be included in capital structure. However, for purposes of calculating income taxes, the Board took into account the cost of short-term debt.

The Board found that Union's depreciation rates should not be increased, but agreed that when decisions have been made by the National Energy Board and the Federal Power Commission on the transportation of frontier gas, the evidence on economic life then available may warrant an application to the Board for a revision of depreciation rates.]

Interim Proceedings

Union requested three interim rate increases during the fiscal year.

The first application, dated June 10, 1976, requested recovery of any deficiency to be determined by the Board in its Phase I decision and the July 1, 1976, TransCanada and other gas supplier increases. The application was later amended to request \$2.9 million additional revenue to maintain the estimated earnings level in fiscal 1977 at the level reported for fiscal 1976. The Board allowed on a refundable basis an increase of approximately 43¢ per Mcf to residential customers, including an increase of \$1.00 in the monthly fixed charge, and lesser increases to other fixed rate customers, effective October 19, 1976, rather than September 1, 1976, as requested. The change in the effective date was due to the Board's denial of Union's request for the recover of the additional revenue of \$2.9 million. To range rate customers the Board allowed increases in accordance with the gas cost escalation clauses in their contracts (about 17¢ per Mcf), effective September 1, 1976.

The second application, dated October 18, 1976, requested, inter alia, an interim increase of 3.5¢ per Mcf from residential customers and in the firm rate applicable to the City of Kitchener. Such increase would enable Union to recover approximately \$1.8 million to defray wage increases. The Board allowed on a refundable basis the 3.5¢ per Mcf increase to residential customers, effective December 1, 1976, but denied the proposed increase to the City of Kitchener.

The third application, dated January 20, 1977, requested interim relief of 9.05¢ per Mcf from fixed rate customers and 8.7¢ per Mcf from range rate customers in order to recover increases in purchased gas costs effective January 1, 1977, together with the associated increase in the carrying cost of gas in storage. The Board granted, on a refundable basis, the requested increases, effective March 1, 1977.

Phase II Proceedings

As indicated in the annual report for fiscal 1976, Union's Phase I application included a proposal that customers receiving gas at reduced rates under old right-of-way agreements and customers receiving free gas because of old oil and gas leases or franchise agreements should pay the regular rates. This proposal, which was proposed to be argued before the commencement of Phase II, was withdrawn by Union in August, 1976.

Union's October 1976 application requested that Phase II (rate design) of the main application be brought on for hearing. The hearing commenced on November 24, and concluded on March 23, 1977, after 16 sitting days. Written argument is to follow.

3. NORTHERN AND CENTRAL GAS CORPORATION LIMITED

Phase I Update

Phase II of Northern and Central's main application of October 10, 1973, which was scheduled to commence April 5, 1976, was adjourned because the Applicant was not prepared to proceed.

Then on May 7, 1976, Northern and Central applied to update some of the Board's findings in its Phase I decision of May 9, 1975. Specifically, the Applicant requested the Board to make rate base and cost of service findings for 1975 and submitted that Phase II rates should be based on such findings. No revision was requested to the previously-found figure of 9.51 percent for reasonable rate of return.

In a decision dated September 30, 1976, the Board found 1975 test year rate base to be \$145,749,546 and cost of service to be \$169,134,175. On the basis of 1975 test year revenues, Northern and Central was found to have overearned by \$2,936,963.

In October of 1976 Northern and Central requested the Board to rehear and review certain aspects of the September decision. The Board proceeded to hold the hearing late in October. At the same time Northern and Central petitioned the Lieutenant Governor in Council in respect of the same matters. The petition was abandoned by Northern and

Central after the decision of the High Court, which is referred to later in this section.

In its decision of December 7, 1976, the Board confirmed its September decision. Northern and Central then applied for judicial review in respect of two of the adjustments to its cost of service that had been made by the Board. These concerned a management fee allegedly paid by Northern and Central to its parent, Norcen Energy Resources Limited, and head office overhead.

The application was dismissed by the High Court on January 27, 1977. Regarding the Norcen management fee, the Court held that the Board's decision did not warrant review and that this was not a case where there was no evidence before the Board. Regarding head office overhead, the Court held that the Board's decision was right and that even if the Board had been wrong this was not a case in which a court should exercise its discretion and set the findings aside.

The Board had earlier found that an across-the-board rate reduction of 2.48¢ per Mcf would correct Northern and Central's overearning position. On February 14, 1977, the Board ordered refunds with interest for the over-collection during the period from November 8, 1975, to January 12, 1977, and reduced Northern and Central's rates by 2.48¢ per Mcf as of January 13, 1977. On this latter date Northern and Central also received an interim rate increase of 11.822¢ per Mcf, as indicated in the next section.

Interim Proceedings

During the fiscal year under consideration Northern and Central, like Consumers' and Union, received interim rate increases due to the July 1, 1976, and January 1, 1977, TransCanada increases. These increases were granted subject to refund or adjustment. The January 1977 increase was applicable only to firm and fixed rate volumes.

Changes to Northern and Central's rates are summarized in the following table:

Effective Date	Particulars	Increase in ¢/Mcf		
		Western Region	Northern Region	Eastern Region
July 1, 1976	TransCanada increases of December 1, 1975, and July 1, 1976	15.29	15.718	15.59
January 13, 1977	Reduction due to overearnings	(2.48)	(2.48)	(2.48)
	TransCanada increase of January 1, 1977	11.822	11.822	11.822

Phase II Proceedings

The hearing of Phase II (rate design) of Northern and Central's main application finally commenced on September 13, 1976, continued intermittently, and is continuing beyond March 31, 1977.

4. OTHERS

The Medina Natural Gas Company, Limited ("Medina") was granted an interim rate increase of 40¢ per Mcf on bills rendered on and after January 1, 1977. In the case of consumption in excess of 1000 Mcf per month, the increase was 16¢ per Mcf. For Medina's Belmont Division (see Acquisitions section) the increase allowed was 75¢ per Mcf for all consumption. The larger increase in the case of the Belmont Division was the first step in establishing system-wide rates for Medina. In its decision the Board also granted Medina a further interim increase of 10¢ per Mcf for both divisions, effective with bills rendered on and after February 1, 1977.

The increased interim rates granted to Medina were due to increased costs, principally increased gas costs from its suppliers. The Board stated that it would not be useful to bring the main application on for hearing while Medina continues to operate at a loss.

Inter-City Gas Limited ("Inter-City") was granted firm rate increases totalling 15.7¢ per Mcf due to increased gas costs from its supplier, ICG Transmission Limited. 14.22¢ of this was effective for billings after September 15, 1976, and the balance, which was granted without a hearing, was effective for billings after February 1, 1977.

The Board also approved changes to the rates applicable to Ontario and Minnesota Pulp and Paper Company Limited

("O & M"), Inter-City's largest customer, and granted temporary winter service rates applicable to O & M. Rates were also granted to permit Inter-City to serve 256915 Wood Products Limited on the Manitou Rapids Indian Reserve near Emo, Ontario. As the customer is not located in a municipality, it was not necessary for Inter-City to apply for a franchise and certificate.

At the beginning of the fiscal year under review the Board extended the existing rates of Tecumseh Gas Storage Limited ("Tecumseh") and granted Farmers' Gas Company Limited ("Farmers'") increased rates, both without a hearing for a period of not more than a year. At the end of the fiscal year the Board again extended Tecumseh's rates.

Accounting Orders

Under the Uniform System of Accounts, Consumers' requested approval of a revised list of plant units and certain changes in the minimum rule regarding costs to be charged to plant accounts. In September, 1976, the Board granted approval and ordered that the revisions become effective October 1, 1976.

In October, 1976, the Board approved the depreciation rates of Inter-City. The rates approved were those used by Inter-City in its cost of service calculation and earlier accepted by the Board for the test year ended December 31, 1974.

Northern and Central in January, 1977, requested a determination by the Board of a question of doubtful interpretation of the accounting rules relating to certain types of expenditures. The Board determined that the expenditures in question should be expensed rather than capitalized and issued its order in February, 1977.

Drilling

The Minister of Natural Resources is required to refer to the Board for report applications to the Minister for permits to drill wells in designated gas storage areas.

During the fiscal year the Board reported to the Minister on applications to drill 14 such wells. The Applicants were Union Gas Limited and Tecumseh Gas Storage Limited. The designated gas storage areas involved were the Dawn 59-85, the Payne, the Bickford and the Seckerton Pools.

In each case the Board was of opinion that there were no special circumstances necessitating a public hearing, and recommended that the permits applied for be granted.

Pipelines

Two applications by Union Gas Limited related to the construction of five 42-inch looping sections of its Dawn-Trafalgar transmission lines that were heard by the Board in January of 1976 were granted subject to conditions.

One order granted leave to commence construction of a 4.6-mile section from the Brooke Valve Site in the Township of Brooke to the proposed Kerwood Valve Site in the Township of Metcalfe.

The other order granted leave to construct the following four sections totalling 41.9 miles, together with additional valving facilities: three sections totalling 30.7 miles from the Strathroy Gate Station in the Township of Cardoc to the St. Mary's Valve Site in the Township of West Nissouri; and an 11.2-mile section from the Bright Compressor Station in the Township of Blandford-Blenheim to the Kitchener-Owen Sound Line Valve Site in the Township of North Dumfries. The latter section was to be either 36 or 42 inches in diameter. Construction is not to commence on any of the four sections until further hearings are held at which Union must show that construction of each section continues to be economically feasible.

In its decision the Board indicated that, in future, applicants for leave to construct looping pipelines located beside an existing line would be required to serve notice on each affected landowner personally or by registered mail.

An application by Union to construct 1.9 miles of 12-inch pipeline to serve Ontario Hydro's J. Clark Keith Generating Station in Windsor that was heard in 1971 and adjourned to permit further negotiations with Hydro was withdrawn upon the request of Union.

The appeal by Union and Tecumseh to the Divisional Court in respect of a zoning by-law passed by the Township of Dawn Council and approved by the Ontario Municipal Board has now been heard. In Reasons for Decision released February 22, 1977, the Divisional Court held that section 4.2.3 of the By-law, which provided that all transmission pipelines in the municipality are to be constructed in specific corridors, is ultra vires the municipality. The Court held further that all matters relating to or incidental to the production, distribution, transmission or storage of gas, including the setting of rates, location of lines and appurtenances and expropriation of necessary lands and easements, are under the exclusive jurisdiction of the Ontario Energy Board and are not subject to legislative authority by municipal councils under The Planning Act.

Expropriations

Twenty-four orders authorizing Union to expropriate pipeline easements were issued during the fiscal year. Twenty-three of these were in respect of Union's program of looping its Dawn-Trafalgar transmission lines. Five of the 23 were to provide extra width for a limited time to facilitate construction of the pipeline.

The other order was in respect of the Waterloo-Owen Sound loop line.

The Board holds expropriation hearings in the local areas to encourage presentation of evidence by the land-owners.

Exemptions

An exemption order was issued to Union to permit construction of a 6-inch transmission line from Cayuga Gate Station at the eastern limit of the old Village of Cayuga along Provincial Highway #3 to Provincial Highway #56, a distance of about four miles.

Franchises and Certificates

During the course of the fiscal year the Board approved the terms and conditions and period of 40 gas distribution franchises for the following distributors in the following municipalities:

Northern and Central - the Cities of Belleville and Orillia, the Towns of Bracebridge, Cobourg, Ganonoque, Gravenhurst and Huntsville, the Villages of Iroquois and Morrisburg, the Townships of Front of Leeds and Lansdowne, Hope, Murray, Orillia, Richmond, Sidney, Thurlow and Williamsburg, the Union of Townships of Eilber and Devitt.

Union - the Towns of Bothwell and Petrolia, the Villages of Oil Springs, Point Edwards and Thamesville.

Consumers' - the Cities of Brockville, Pembroke and Welland, the Towns of Aurora, Bradford, Grimsby, Hawkesbury, Lincoln, Newmarket, Niagara-on-the-Lake, Renfrew, Vankleek Hill and Vaughan, the Village of Cobden, the Townships of King, Pakenham and West Lincoln.

In each case, except that of the Union of Townships of Eilber and Devitt, the distributor had previously been franchised in the municipality. In each case the Board declared and directed that the assent of the municipal electors to the by-law granting the franchise was not necessary.

In Reasons for Decision for the Town of Huntsville franchise, among other cases, the Board stated that it wishes to prevent the possibilities of two different franchises granted to a distributor being effective at the same time throughout a municipality or in part of a municipality. The Board's approvals were therefore conditional on previous by-laws granting franchises still effective in the present area of the municipality being repealed.

In Reasons for Decision for the Village of Morrisburg franchise, the Board stated that in ordinary circumstances at this time something in the order of 20 to 30 years is appropriate as the term of a franchise.

In July of 1976 the Board granted Consumers' a certificate of public convenience and necessity to supply gas in the Town of Fort Erie. The application had been adjourned from 1967 pending resolution of the question of the validity of Consumers' franchise for Fort Erie.

Discontinuance of Service

1. Union Gas Limited

In July, 1976, the Board rendered its decision on Union's discontinuance application mentioned in the last annual report. The Board granted Union leave to discontinue service to 110 customers on 21 sections of line in the Regional Municipalities of Haldimand-Norfolk and Hamilton-Wentworth.

The Board found that these lines are in such a deteriorated condition that they should be abandoned or replaced and that replacement would result in an excessively high degree of subsidization of the 110 customers by other customers.

The Board stated that although customers are not entitled as of right to compensation or changeover assistance upon termination of service, in this case they are. Leave to discontinue was made conditional on compensation or changeover assistance being paid according to a formula similar to that prescribed by the Board in the case of Union's 1973 discontinuance proceeding in the same area.

2. Farmers' Gas Company Limited

In March, 1976, the certificate of incorporation of Farmers' Gas Company Limited ("Farmers'") of Kingsville was cancelled by the Minister of Consumer and Commercial Relations for failure to comply with The Securities Act, and the Company was declared to be dissolved.

Union, which was supplying gas to Farmers', continued to do so while discussions took place between Mr. Mancini, the M.P.P. for Essex South, various government officials, including the Vice-Chairman of the Board, Union, and some of the customers of Farmers'. As no reasonable arrangement whereby the customers of Farmers' would continue to be served was apparent, at least at present. Union discontinued its supply to the system in the fall of 1976.

Acquisitions

1. The Medina Natural Gas Company, Limited

In May, 1976, the Board reported to the Lieutenant Governor in Council on the application of Donald F. Lowrie and Harold E. Stafford to acquire in equal proportions all the shares of Medina from Hulme H. Pattinson and his associates. The proposed agreement between the parties was conditional on Medina acquiring the Belmont distribution system from The Central Development Company, Limited ("Central Development").

The Report stated that in the Board's opinion the transfer of the share control of Medina would serve the public interest and the leave applied for should be granted.

By Order-in-Council O.C. 2194/76 dated July 28, 1976, the leave requested was granted. As a condition to leave being granted, Messrs. Lowrie and Stafford accepted certain conditions contained in a letter dated June 28, 1976, and signed by the Ministers of Energy and Consumer and Commercial Relations. Among them is a commitment to achieve, in the absence of unforeseen occurrences, less than 10 percent unaccounted-for gas within two to three years.

2. The Central Development Company, Limited

In March, 1975, the Board had reported its opinion to the Lieutenant Governor in Council that leave should be granted to Central Development to sell the Belmont distribution system to Medina for \$14,500.

Order-in-Council O.C. 2194/76, besides approving the Medina share transfer, granted leave for the transfer of the distribution system to Medina. Central Development therefore disappears from the scene as a gas distributor.

STEAM RATES

A new maximum tariff of steam rates, including a change in its fuel adjustment clause, was approved for Industrial Steam Limited ("Industrial Steam") of Ajax as of May 1, 1976, for a period of not more than one year. The rates are to apply uniformly to all customers.

Although not required by law to use the rate base-rate of return method for fixing the rates of Industrial Steam, the Board stated that it has found that that method is best for arriving at just and reasonable utility rates. The Board estimated that the rate base of Industrial Steam as of December 31, 1976, would be \$1,000,000 and assumed that 10 percent would be a reasonable rate of return.

The rates approved by the Board were 45¢ per 1000 lb. less than those proposed by Industrial Steam.

In February of 1977 the Board received a new application from Industrial Steam for further rate relief.

ONTARIO HYDRO

Bulk Power Rates

In June of 1976 the Select Committee of the Legislature submitted its final report recommending, inter alia, no

change in the 22 percent increase in Ontario Hydro's 1976 bulk power rates that the Committee had earlier recommended and that had been implemented by Hydro.

In the same month the Minister of Energy referred Hydro's proposed bulk power rates for 1977 to the Board for investigation and report. The Board was specifically requested to report on

- a) Hydro's financial condition through reference to its principal financial indicators, and
- b) the appropriateness of the proposed rates in relation to the spirit and intent of the federal Anti-Inflation program as prescribed for Hydro by the Provincial Government.

The hearing commenced on August 3, 1976, and concluded on August 20. Of the 14 intervenors, two, namely the Consumers' Association of Canada and the Ontario Municipal Electric Association, participated throughout the hearing.

In its report dated September 30, 1976, the Board stated that it would be concerned if Hydro's trend to a higher debt ratio continued. The Board was of opinion that Hydro's interest coverage of 1.00 or 1.05 is inadequate and that restoration of that indicator to a more respectable level is of paramount importance. The Board indicated that the fact that Hydro is complying with the borrowing

guidelines laid down by the Provincial Treasurer should maintain, if not enhance, its financial integrity.

The Board stated that the key issue in the hearing was the apparent conflict between the need to maintain Hydro's financial integrity and the need to comply with the spirit and intent of the Anti-Inflation Guidelines.

With the exception of the depreciation expense, the Board accepted Hydro's estimate of 1977 costs. The Board recommended a revenue allowance of about \$1.7 billion from bulk power sales, which results in rate increases in the order of 30.3 percent. The Board found that this was within the guidelines prescribed for Hydro by the Provincial Government.

Hydro proposed a revised depreciation policy which would have added \$12 million to bulk power costs. The Board questioned the comprehensiveness of Hydro's depreciation study but stated that in any case it would not have recommended implementation of the new policy at this time because it appeared to be in breach of the spirit and intent of the Anti-Inflation Guidelines.

Some of the other matters dealt with by the Board were:

- a) Hydro proposed rate increases varying from 30 to 69 percent, depending on degree of interruptibility and class of power, for

its direct customers. The Board recommended that proposed increases exceeding 50 percent be limited to 50 percent; and

- b) Hydro charged the extraordinary loss of \$60 million, due to the cancellation of the partially constructed Bruce Heavy Water Plant "C", against income in 1975 and reduced the reserve for rate stabilization by a similar amount. While the Board recognized that there may have been other accounting methods available to Hydro in recording this loss, the Board did not consider it necessary to retroactively impose another method on Hydro, and therefore accepted Hydro's treatment.

The rates recommended by the Board were accepted by the Government and by Hydro, and implemented by Hydro.

Costing and Pricing

By reference dated February 24, 1977, the Minister of Energy referred to the Board, for examination and report after a public hearing, the principles of power costing and wholesale and retail rate-making appropriate for use by Ontario Hydro, particularly the principles set forth in the Hydro reports entitled "Electricity Costing and Pricing

Study" and "Depreciation Policy and Procedures for Major Fixed Assets in Ontario Hydro". The 10-volume "Electricity Costing and Pricing Study" had been tabled in the Legislature in October, 1976.

Consultants have been retained to assist the Board and its staff. A public preliminary hearing was held on March 30, 1977, to settle procedural matters. The hearing itself will commence on May 16, 1977. The public has been invited to make submissions and participate in the hearing.

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Government
Publications



Ontario Energy Board

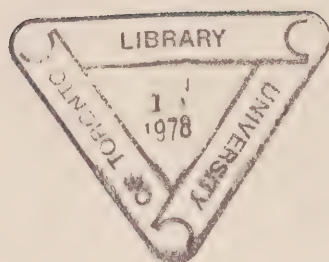
ANNUAL REPORT

FISCAL YEAR ENDED MARCH 31, 1978



ANNUAL REPORT

FISCAL YEAR ENDED MARCH 31, 1978





of the
er

Ministry of
Energy

416/965-4286

Queen's Park
Toronto Ontario

April 27, 1978.

TO THE HONOURABLE PAULINE M. MCGIBBON
O.C., B.A., LL.D., D.U. (OTT)

Lieutenant-Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the Eighteenth
Annual Report for the Ontario Energy Board
for the fiscal year ended March 31, 1978.

Respectfully submitted

A handwritten signature in dark ink, appearing to read "Reuben Baetz".

Reuben Baetz,
Minister



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n

Ontario
Energy
Board

416/965-6078

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14 Carlton Street
Toronto Ontario
M5B 1J2

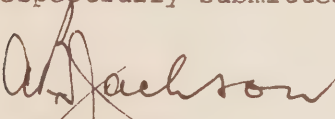
April 18, 1978

Honourable Reuben C. Baetz
Minister of Energy
12th Floor, 56 Wellesley Street West
Toronto, Ontario
M7A 2B7

Dear Mr. Baetz:

I have the honour to present herewith the Annual
Report of the Ontario Energy Board for the fiscal
year ended March 31, 1978.

Respectfully submitted,



A. B. Jackson
Chairman

EIGHTEENTH ANNUAL REPORT

OF THE

ONTARIO ENERGY BOARD

FISCAL YEAR ENDED MARCH 31, 1978

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ONTARIO ENERGY BOARD

ANNUAL REPORT

Fiscal Year Ended March 31, 1978

INTRODUCTION

[The activities of the Board during the fiscal year ended March 31, 1978, continued at the high level of the previous three years. The principal matters dealt with were rate proceedings and rate-related proceedings involving Ontario Hydro and the three major natural gas distributors: The Consumers' Gas Company ("Consumers'"), Union Gas Limited ("Union") and Northern and Central Gas Corporation Limited ("Northern and Central"). These matters alone required the Board to sit for 197 days, in panels of two or three.] Hearing costs of about \$500,000 were levied against the four utilities.

[Escalating costs of gas and distribution meant that the gas distributors were before the Board on a continual basis. Gas cost increases were attributable almost entirely to the fact that the Federal Government increased the Toronto city-gate price of natural gas, which determines what the distributors pay to their supplier TransCanada PipeLines Limited ("TransCanada"), from \$1.505 per thousand cubic feet ("Mcf") to \$1.68 per Mcf on August 1, 1977, and to \$1.85 per Mcf on February 1, 1978.]

-The Board completed the Phase II (rate design) portion of applications of Consumers', Union and Northern and Central. Phase I (rate base, return thereon and reasonable return) determinations in new proceedings were completed

for Consumers' and were in progress for Union and Northern and Central at the end of the fiscal year. As part of these major rate proceedings the Board heard numerous applications for interim relief due to increased gas costs or distribution costs or both.

Regarding electricity, the Minister of Energy again referred to the Board for investigation and report the bulk power rates of Ontario Hydro, in this case those proposed for 1978. In separate hearings carrying through the fiscal year and beyond, hearings that could be described as generic hearings, the Board dealt with a reference relating to the principles of power costing and pricing appropriate for Ontario Hydro ("Hydro"). The matter had been referred by the Minister to the Board in the previous fiscal year.

The Board also considered rate applications from smaller gas distributors and from a steam distributor, and other types of applications from the major gas distributors. All these matters are detailed in this Report.

COMPOSITION OF THE BOARD

At the end of March, 1978, the Board consisted of nine Members, namely:

A. B. Jackson, Q.C.	Chairman
I. C. MacNabb, P.Eng.	Vice-Chairman
W. W. Stevenson, Ph.D.	Member
S. J. Wychowanec, Q.C.	Member and Vice-Chairman-Designate

H. R. Chatterson, B.Comm.	Member
J. C. Butler, P.Eng.	Member
J. R. Dunn, P.Eng.	Member
D. M. Treadgold, Q.C.	Member
R. H. Clendining, P.Eng.	Member and Chairman-Designate

In July, 1977, Mr. Treadgold, who had previously been a part-time Member of the Board, became a full-time Member. Mr. J.A.W. Whiteacre, Q.C., a part-time Member, resigned from the Board in November, 1977. In February, 1978, three appointments affecting the Ontario Energy Board were announced by the Office of the Premier. Mr. MacNabb was appointed Executive Co-ordinator-Designate of the Strategic Planning and Analysis Group in the Ministry of Energy. Miss Wychowanec was appointed Vice-Chairman-Designate of the Ontario Energy Board; and Mr. Clendining was appointed a Member and Chairman-Designate of the Ontario Energy Board to succeed Mr. Jackson upon the latter's retirement at the end of April, 1978. Mr. Clendining was formerly Senior Advisor, Crude Oil and Natural Gas, in the Ministry of Energy.

Dr. Stevenson has been a member of the Royal Commission on Electric Power Planning since its inception but until recently has given much of his time to the work of the Ontario Energy Board. It is expected that during the next fiscal year the work of the Royal Commission will leave him with little or no time for the work of the Board.

Principal Staff of the Board were:

Board Secretary	S.A.C. Thomas
Energy Returns Officer and Manager, Financial Analysis	O. J. Cook
Director of Operations	D. D. McLean
Board Solicitor	L. Graholt
Special Projects Officer	D. R. Cochran
Manager, Engineering	C. J. Mackie
Board Engineer	H. Strozyk
Manager, Rate Design	H. M. Kast
Financial Analyst	A. Meddows-Taylor
Financial Analyst	A. Parekh

SUMMARY OF PROCEEDINGS BEFORE THE BOARD

During the 1977-78 fiscal year 111 proceedings were commenced before the Board: 99 by application, 4 by ministerial reference and 8 by letter request. A classification of proceedings completed during the fiscal year is as follows:

Under The Ontario Energy Board Act

	<u>Number</u>
Rates and other charges for gas	19
Gas Storage	6
Leave to construct pipelines	4
References by Ministers	4
Miscellaneous orders	8

Under The Municipal Franchises Act

Approval of gas franchises	63
Certificates	<u>3</u>
TOTAL	<u>107</u>

As in the past, hearings were held at locations convenient to interested parties. Ten were held outside Toronto: at London, Sarnia and Cayuga.

ANTI-INFLATION PROGRAM

As outlined in the annual report for fiscal 1976-77, the Board has been applying the Anti-Inflation Guidelines in regulating the rates of the privately-owned gas distributors. The two publicly-owned gas distributors in Kingston and Kitchener continue to be price monitored by the Energy Returns Officer. In each case the rates are tested by the profit margin rules set out in section 18 of the Anti-Inflation Guidelines.

In accordance with the Reference from the Minister of Energy, the Board strictly applied the spirit and intent of the Guidelines in reporting on Ontario Hydro's proposed bulk power rates for 1978.

NATURAL GAS

Rates

1. The Consumers' Gas Company

(a) Phase II Proceedings

[On April 7, 1977, the Board brought down its reasons for decision on the concluding Phase II (rate design) portion of the main application of May, 1976.

The Board commented in the Reasons that with the exception of the treatment of gas costs, there was little variation among the cost allocation studies filed by Consumers' and no conclusive indication of trends was established. The Board stated that it does not expect that cost allocation studies, regardless of methodology, will ever become the sole criterion in rate design. The Board reaffirmed its opinion that there are important factors other than cost involved in rate design, and mentioned that it is essential that a more serious attempt be made by Consumers' to quantify and support the importance of these factors.]

[The Board, referring particularly to blocking and pricing philosophy and to small-volume rate schedules, directed Consumers' to submit a cost or economic basis of support for the rates it proposes in the next Phase II.]

[The Board directed the Applicant to shift a variety of essentially non-residential customers from residential to general service. The Board also directed Consumers' to develop a more specific late payment penalty provision and to redraft the minimum bill provision of its large-volume rate schedules. Subject to these and other modifications the Board approved the rates and other charges proposed by Consumers' and confirmed previous interim rate increases.]

The effect of Consumers' proposals, and the Board's decision, was that range rates were eliminated

except for Ontario Hydro and interruptible service. The Board stated that it would continue to examine the justification for range rates and that it expected Consumers' to present a cost-based justification of its interruptible pricing policy in the next Phase II. Consumers' was also requested to examine the question of whether specific rates could be developed for the smaller volume interruptible market and whether contracts for interruptible service should remain confidential.

In its decision the Board stated that the trend is towards de-emphasizing promotional features in rate design. Thereafter, Edward P. Broome, one of the intervenors, petitioned the Lieutenant Governor in Council, requesting that a promotional residential rate that had been discontinued in 1974 be reinstated. By O.C. 2131/77 dated August 10, 1977, the Board's decision in respect of Consumers' residential service rate was confirmed.

(b) Interim Proceedings

✓ To pass on the effect of the August 1, 1977 TransCanada gas cost increase, the Board granted Consumers' interim relief of 17.553¢ per Mcf effective August 1, 1977, on an across-the-board basis and not subject to retroactive refund. The Board agreed with Consumers' proposal to take into account the benefits of gas in storage in the establishment of an appropriate implementation date for the passing on of the February 1, 1978 increase that had been announced by the Federal Government. 7

On October 27, 1977, the Board brought down another interim rate decision. Consumers' had requested additional revenue of \$25,225,000 to permit it to earn a requested rate of return of 10.44% based on budgeted figures for its fiscal 1978 rate base and cost of service.

The Board held that although it has consistently held that it cannot guarantee that a regulated utility will earn a return found to be reasonable, the utility should be given the opportunity to earn such return. A delay in granting any relief until a Phase I decision, the Board felt, could jeopardize Consumers' financial integrity.

On the basis of nine months actual and three months estimated figures for Consumers' fiscal 1977, and the previously allowed reasonable rate of return of 10.1%, the Board allowed interim rate relief of \$12,113,000. The Board accepted Consumers' method of allocating the deficiency to customer classes substantially in accordance with allocated rate base for fiscal 1976, and used 1977 sales volumes as the basis for the determination of the unit increases. The Board did not approve Consumers' proposal to relieve Ontario Hydro of an increase in rates and to distribute the resulting revenue shortfall among the other customer classes. Rate increases were approved subject to retroactive refund or adjustment, for all gas consumed on and after November 1, 1977.

In Reasons for Decision dated February 22, 1978, the Board granted Consumers' further interim rate relief

of 17.051¢ per Mcf to enable Consumers' to pass on the February 1, 1978 TransCanada increase. The relief was granted across-the-board and not subject to retroactive adjustment or refund. It was made effective for gas consumed on and after March 27, 1978, to give customers credit for lower-priced gas in storage on August 1, 1977 and February 1, 1978. In its decision the Board also altered the Btu reference in Consumers' rate schedules from 1000 Btu's per cubic foot to 998.

Finally, in an oral decision on March 14, 1978, the Board granted Consumers' additional rate relief, subject to retroactive adjustment, to be also effective on March 27, 1978. The relief enabled Consumers' to recover the deficiency found in the new Phase I and discussed in the next section of this Report. The Board allowed Consumers' to allocate the deficiency in the same manner as has been allowed in the October 27, 1977 interim decision.

(c) New Phase I Proceedings

[Public hearings on Phase I (rate base, return thereon and reasonable return) of Consumers' new rate application commenced on June 23, 1977, and continued intermittently to October 12, 1977. Final submissions were filed by December 8, 1977, and reasons for decision came out on March 7, 1978.]

The Board made the following findings:

	<u>1976</u>	<u>1977</u>	<u>1978</u>
Utility income	\$63,592,000	\$65,482,600	\$66,259,500
Rate base	646,525,100	690,207,700	734,652,800
Indicated rate of return	9.84%	9.49%	9.02% ¹

<u>Capital Component</u>	<u>Percentage</u>	<u>Cost Rate</u>	<u>Return Component</u>
Long-term debt	55.1	8.89%	4.90%
Preference stock	4.8	7.61%	0.37%
Deferred taxes	3.7	1.14%	0.04%
Common equity	<u>36.4</u>	14.00%	<u>5.09%</u>
	<u>100.0</u>		<u>10.40%</u> ²

1 Before adjusting for the November 1977 interim rate increase. After adjustment it is 9.88%.

2 Reasonable rate of return.

The Board stated that the comparable earnings test deserves considerable emphasis in determining the cost of equity capital but that in the present circumstances it was necessary for the Board to broaden its areas of investigation. In particular, the Board considered the yield spread above interest rate levels.]

The Board determined a revenue deficiency of \$7,383,600 on the basis of Consumers' budgeted figures for fiscal 1978, as adjusted, but stated that the accuracy of

these figures would continue to be assessed. In this connection Consumers' was directed to file quarterly figures as the 1978 fiscal year progresses. Having determined that there was a revenue deficiency, the Board confirmed interim rate increases granted during the new Phase I.

The Board decided to accept for rate-making purposes the consolidation with Consumers' of Underwater Gas Developers Limited, a wholly-owned subsidiary engaged in contract drilling for oil and gas, and requested Consumers' to review the depreciation policy of its subsidiary.

The Board endorsed Consumers' undertaking of a lead-lag study to determine appropriate working cash allowance periods.

The Board observed that Consumers' marketing policy of continued expansion, particularly in the residential market, is supported by a more favourable short-term gas supply outlook and stated that it was generally satisfied with the Company's feasibility criteria but that these should be closely monitored and modified as necessary.

2. Union Gas Limited

(a) Phase II Proceedings

[The Board brought down its Phase II reasons for decision on June 30, 1977. With minor exceptions, all interim rates then in effect were confirmed. New rates, which were amended in reasons dated July 29, 1977, became effective August 1, 1977.]

In the 1975 Phase II decision the Board had directed Union to develop specific rates to replace range Rates 5, 6, 10 and 11 as contracts expire. In the 1977 Phase II Union complied with the direction but argued that range Rates 5 and 6 should be continued due to the competition from heavy oil. The Board concluded that range Rate 7 would provide Union with the necessary flexibility in its most crucial market and that the same flexibility would not be required under Rates 5 and 6. Union's proposal to lower the minimum daily demand under Rate 7 from 5,000 Mcf to 1,000 Mcf was also denied. The Board directed that Rate 7 contracts, including renewal contracts, should continue to be filed with the Board and be made available to the public but that approval by the Board of the specific contractual rates would no longer be required.

Union had filed a cost allocation study for the test year and the Board's consultant filed a critique of it. In its decision the Board stated that in the next Phase II it expected Union to show the degree to which different results would be obtained in important areas where judgment was exercised if other widely accepted principles were used. The Board stated that it expected Union to make a serious attempt to better quantify and support its rate design in future. The Board also stated that it expected Union to begin compiling data so that it would be in a position to do an incremental cost study if so directed.

(b) Interim Proceedings

Union requested two interim rate increases during the fiscal year.

The first request was for the August 1, 1977 TransCanada and other gas supplier increases as well as for about \$4 million additional revenue. Union proposed that the additional revenue be recovered by implementing new rates earlier than otherwise would be the case. The Board initially allowed, inter alia, an increase of 17.79¢ per Mcf to residential customers subject to retroactive refund or adjustment and denied the \$4 million increase by allowing the new rates to become effective November 29, 1977, rather than November 1.

Upon the interim order being issued, Union applied to the Board to vary its terms. The application essentially requested the Board to reconsider its denial of the \$4 million and its calculation of the increase in the cost of gas. In its decision the Board again denied the additional revenue sought and upheld its earlier decision regarding the figure representing the increase in the cost of gas. In the result, the increase to residential customers was changed from 17.79¢ per Mcf to 17.75¢.

The second request was to recover some \$16.5 million of Union's claimed revenue deficiency of \$17.3 million and to recover the February 1, 1978 TransCanada and other gas supplier increases. The Board granted, subject to retroactive refund or adjustment, about \$10.4 million of the requested deficiency effective February 15, 1978. The Board permitted the \$10.4 million to be recovered by a 15.6¢ per Mcf increase to residential rates and a 4¢ per Mcf increase

to general service rates. No increase was assessed to large volume customer classes in respect of this portion of the request.

The request to recover the gas cost increase was granted substantially as requested, again subject to retro-active refund or adjustment. An increase of 18.17¢ per Mcf to residential and other fixed rate customers became effective on March 24, 1978. Other customers' rates were increased by slightly lesser amounts effective March 1, 1978.

(c) New Phase I Proceedings

The hearing of this matter commenced on October 17, 1977, and concluded on February 8, 1978, after 19 sitting days. Written argument followed, with Union's reply to be filed in April, 1978.

3. Northern and Central Gas Corporation Limited

(a) Phase II Proceedings

The hearing of Phase II of Northern and Central's main application, which had commenced on September 13, 1976, concluded on May 17, 1977, after 56 sitting days. Final argument was received on July 29, 1977. On November 24, 1977, the Board brought down reasons for decision.

In the Decision, the Board generally accepted the principle of moving away from rates based on historical or promotional considerations and toward cost-based rates. The Board accepted the elimination of separate rates for the

three delivery areas within the Northern Region and the transfer of Central delivery area customers to the Eastern Zone. The result was that Northern and Central now has three rate zones: Western, Northern and Eastern. The late payment charge was reduced from 10% to 5% except for the large volume Special Contract customers where it remains at 1%. All interim rates approved prior to February, 1977, were confirmed.

As this was the first complete Phase II application that the Board had received from Northern and Central, consideration of the cost of service studies, of which 15 were filed, occupied a major portion of the hearing. The Board directed Northern and Central to file a separate cost of service study for each rate zone in its next Phase II and to justify fully any proposed differences in zonal rates of return. The Board also directed Northern and Central to prepare for its next Phase II a three-part pricing guide (customer charge, demand charge and commodity charge) for the residential class in each rate zone to enable the Board to have better cost justification of future proposed rates. Further, as had also been mentioned in Consumers' and Union's Phase II reasons, the Board directed Northern and Central to specify in future hearings how it exercised its judgment between cost and non-cost considerations in rate-making. The Board also directed the Company in future to file studies showing the number, sizes and types of "captive customers" and the proposed revenues from them.

The Board required Northern and Central to phase out the confidentiality of its contracts under its Rate 20 range rates. In a move toward cost based rates, Rate 20 firm contract rates were reduced by 2¢ per Mcf and interruptible contract rates by 5.17¢, the upper limits of the Rate 20 ranges were reduced accordingly, and the lower limits were moved upward. All other rates were increased.

In a departure from previous practice, the Board awarded costs to intervenors, to be paid by Northern and Central. The Board stated that it would award costs to all intervenors in the proceeding who:

- (i) seek them;
- (ii) have a substantial interest in the outcome;
- (iii) have participated in a responsible way; and
- (iv) have contributed to a better understanding of the issues by the Board.

(b) Interim Proceedings

Northern and Central's request for interim rate increases to pass on the August 1, 1977 increase in the cost of gas purchased from TransCanada was granted by the Board subject to retroactive refund or adjustment. The following increases became effective for all gas consumed on and after August 4, 1977:

Western Zone	16.802¢ per Mcf
Northern and Sault Ste. Marie Areas	17.282¢ per Mcf
Central and Eastern Areas	17.551¢ per Mcf

Later another interim application was filed requesting a pass-on of the February 1, 1978 TransCanada gas cost increase of about 17¢ per Mcf and a further rate increase to permit Northern and Central to earn its previously authorized reasonable rate of return of 9.51%. The Board's decision approved the cost of gas increase and allowed the recovery of a deficiency of \$4.8 million, all subject to retroactive refund or adjustment. The decision was unique in Ontario insomuch as it granted a deficiency during a Phase I proceeding before all Phase I evidence had been heard. The total rate increases were as follows and became effective for all gas consumed on and after February 13, 1978:

	<u>Fixed Rate Classes</u>	<u>Rate 20 Rates</u>
Western Zone	24.428¢ per Mcf	18.006¢ per Mcf
Northern Zone	25.108¢ per Mcf	18.686¢ per Mcf
Eastern Zone	25.313¢ per Mcf	18.891¢ per Mcf

4. Others

The Medina Natural Gas Company, Limited ("Medina") received an interim rate increase of 18¢ per Mcf for gas consumed according to meters read on and after January 1, 1978. The increase was due to increased costs of purchased gas.

In February, 1978, Medina applied for a further increase of 30¢ per Mcf and to bring the rates in its Belmont Division up to system-wide rates. It also requested a fixed monthly charge and a purchased gas adjustment clause. The hearing was held late in March but no decision had been rendered by the end of the fiscal year.

Inter-City Gas Limited ("Inter-City") was granted an interim rate increase of 16.63¢ per Mcf for gas billed after October 1, 1977, due to increased gas costs from its supplier, ICG Transmission Limited.

In a later decision Inter-City's general service rates were increased by 31.42¢ per Mcf and interruptible service rates by 14.16¢ per Mcf for gas billed on and after March 14, 1978, due to increased gas costs. 16.60¢ of the 31.42¢ added to the general service rates resulted from Inter-City's decision to purchase more of its gas supply on a firm basis. The Board also approved new temporary winter service rates applicable to Ontario and Minnesota Pulp and Paper Company Limited of Fort Frances, Inter-City's largest customer.

In October, 1977, the Board granted a rate increase of about 55¢ per Mcf to Wellandport Gas Company Limited of Dunnville. The Company's minimum bill and reconnection charge were also increased. These increases in rates and other charges were granted without a hearing for a period of not more than a year.

Accounting Orders

Under the Uniform System of Accounts, Union requested approval to defer in a special inventory account the cost of gas purchased from Petrosar Limited from the date of first delivery until Union and Northern Natural Gas Company of Omaha have received all necessary regulatory approvals for the sale and purchase of the gas. Union also requested approval of the same accounting treatment for the carrying charges on such gas. In November, 1977, the Board granted approval without prejudice to the Board's rate making treatment.

In December, 1977, the Board approved Union's requested depreciation rate applicable to an aircraft acquired earlier in the year. The rate was made effective on April 1, 1977.

Gas Storage

During the fiscal year Union received permission to operate two new gas storage areas. The Board recommended to the Lieutenant Governor in Council that some 1,130 acres in Dawn and Enniskillen Townships (the Dawn 167 Pool) and some 720 acres in Enniskillen and Moore Townships (the Enniskillen 28 Pool) be designated as gas storage areas. The lands were so designated respectively by Ontario Regulation 524/77 filed July 22 and Ontario Regulation 582/77 filed August 16. After each designation the Board issued an order authorizing Union to inject gas into, store gas in and remove gas from the designated area.

The Board also approved the parties, term and storage in respect of agreements whereby Union would store gas for TransCanada and for Northern Natural Gas Company of Omaha, Nebraska. The TransCanada agreements are for a term of about one year and provide for the storage of gas tendered by TransCanada for storage after making allowance for Union's needs and those of Union's other storage customers. The Northern Natural agreement provides for an initial term of about five years and a maximum storage balance of 10 billion cubic feet ("Bcf").

The parties, term and storage in respect of a proposed agreement between Tecumseh Gas Storage Limited and Consumers' were also approved by the Board. It provides for an initial term of 18 years and storage increasing from 44 Bcf per year to 50 Bcf.

Drilling

The Minister of Natural Resources is required to refer to the Board for report applications to him for permits to drill gas or oil wells in designated gas storage areas. The Board dealt with three such matters during the fiscal year.

Meylow Oil Company Limited applied to drill in the Dawn #1 Pool, Tecumseh Gas Storage Limited in the Seckerton Pool and Consumers' in the Crowland Pool. In each case the Board recommended that the permits applied for should be granted. A public hearing was held in the case of the Meylow application.

Pipelines

In June, 1977, the Board granted Tecumseh Gas Storage Limited ("Tecumseh") leave to loop its transmission line from its storage facilities in Moore Township to Union's facilities in Dawn Township. In its decision the Board commented that Tecumseh's undertaking to make its environmental report a part of the specifications of the contract for the construction of the pipeline was a procedure that should be adopted by other companies constructing pipelines in Ontario.

During the fiscal year the Board granted Union leave to construct transmission lines from its Dawn-Trafalgar lines to Tillsonburg and from its system in Moore Township to the facilities of Petrosar Limited. The Board refused Union's application to build a distribution line and station in London on the grounds that it was possibly unnecessary and certainly premature.

At the end of the fiscal year the Board authorized Union to commence construction of some 11 miles of 42-inch line from the Township of Lobo to the Township of London. That construction would be part of Union's program to loop sections of its Dawn-Trafalgar transmission lines. In its reasons for decision the Board discussed the question of what constitutes economic feasibility in the case of expansion of transmission capacity.

Exemptions

Five orders were granted exempting Union from obtaining leave orders to construct certain minor transmission lines. These were to be located in the City of Nanticoke, between the Townships of Delhi and Norfolk, in the City of London, in the Township of Flamboro and from the Township of Westminster to the City of London.

Petrosar Limited was also granted an exemption to construct a certain transmission line in the City of Sarnia.

Franchises and Certificates

During the fiscal year the Board approved the terms and conditions and period of 63 gas distribution franchises for the following distributors in the following municipalities:

Consumers' - the Towns of Alliston, Almonte,
Arnprior, Carleton Place, Collingwood, East
Gwillimbury, Lindsay, Newcastle,
Penetanguishene, Perth, Smiths Falls,
Stayner and Whitchurch-Stouffville, the
Villages of Elmsvale and Tottenham, the
Townships of Beckwith, Charlottenburg,
Drummond, Elizabethtown, Front of Leeds and
Lansdowne, Georgina, Goulbourn, Horton,
Kenyon, Kitley, Lancaster, Lochiel,
Longueuil, March, McNab, Montague, North

Elmsley, Ops, Oro, Pembroke, Ramsay, Ross,
South Elmsley, Stafford, Sunnidale, Tay,
Tecumseh, Tiny, Uxbridge, West Carleton
and West Hawkesbury.

Union - the City of Owen Sound, the Towns of
Halton Hills, Milton, Simcoe and Thornbury,
the Villages of Newbury, Port Stanley and
Wardsville and the Township of St. Vincent.

Northern and Central - the Towns of Kenora and
Prescott, the Townships of Augusta, Cornwall,
Edwardsburgh, Hagar, Matilda and Pittsburg.

Except in the cases of the Township of Oro and the
Town of Newcastle the distributor had previously been
franchised in the municipality. In those cases the Board
also granted a certificate of public convenience and
necessity to Consumers'.

In each case except that involving the Township of
Augusta the Board declared and directed that the assent
of the municipal electors to the by-law granting the
franchise was not necessary. In the case of the Township
of Augusta Northern and Central had not been able to come
to an agreement with the Township as to the term of a new
franchise and therefore applied to the Board to extend the
term of the old franchise. The Board did so, for a period
of 10 years.

Discontinuance of Service

In January, 1978, Union applied for leave to discontinue distributing gas to 53 customers on 16 sections of pipeline in the Regional Municipalities of Haldimand-Norfolk and Hamilton-Wentworth. The application was Union's third in that geographical area. The hearing was commenced and is to be continued in April, 1978.

STEAM RATES

A new tariff of steam rates, including a slight change in the fuel adjustment clause, was approved for Industrial Steam Limited of Ajax as of August 1, 1977, for a period of not more than one year. The Company's franchise in Ajax expires early in 1980.

The Board said that in the absence of a more acceptable proposal it would continue to consider a return of 10% on a rate base of \$1,000,000 as being reasonable. The rates accepted by the Board were based on annualized estimated figures for utility revenues and costs for 1977, including a depreciation allowance of \$78,000.

The approved rate increases amounted to an average of about 15¢ per 1000 lb. whereas the Company had applied for about 85¢ per 1000 lb. The Board also decreased the delayed payment penalty from 10% to 5%.

ONTARIO HYDRO

Bulk Power Rates

Terms of Reference were received from the Minister of Energy in June of 1977 instructing the Board to investigate Hydro's proposed bulk power rates for 1978. The proposed rates represented an increase of about 11.3% to the 352 municipal utilities and about 12% to the 101 direct industrial customers. The Board was cautioned by the Minister that "1978 Bulk Power Rates should be increased only on the basis of, and to the extent that, the Ontario Energy Board conclusively establishes such a need". The Board was instructed that the following financial criteria were appropriate for 1978:

- (a) a debt/equity ratio not greater than 85/15;
- (b) a times-interest-earned ratio not less than 1.30.

The Board was also instructed, inter alia, to report on the progress Hydro was making towards implementing the following government policies:

- (a) That Ontario Hydro reduce the high level and rate of growth predicted in Operations, Maintenance and Administration budgets by putting new effort into improving productivity, cutting costs, and increasing the efficient use of its plant.
- (b) That Ontario Hydro modify its budget process to highlight performance and to make the timing of the process more responsive to the current financial environment.

The hearing commenced in July, 1977, and concluded after 16 hearing days. Twelve interventions were received and some of the intervenors participated in the hearing. The interest of Lake Ontario Steel Company Limited was restricted to the planned phasing out of electric furnace rates. The interest of Dow Chemical of Canada, Limited was restricted to the contract between Hydro and Petrosar Limited for the supply of fuel oil. Dow's motion to the effect that the terms of the contract should be either made public or released to the Board for confidential perusal was denied by the Board.

During the hearing Hydro indicated that the bulk revenue for 1977 was expected to be \$108 million in excess of that permitted under the AIB net margin test. Hydro wished to rebate this excess by crediting 1978 monthly bills.

In its report to the Minister of Energy dated August 31, 1977, the Board expressed the following opinions:

1. Ontario Hydro's forecast of bulk power costs for 1978 is excessive by an amount of \$30 million.
2. Electric furnace rates should be phased out over a period of five rather than three years, and the additional rate increase to this class of customer in 1978 should be adjusted accordingly.
3. All proposed Bulk Power Rates for 1978 should be adjusted downward by Ontario Hydro in an equitable manner to the level indicated.

4. The amount of the 1977 revenues that are excess revenues under the Anti-Inflation program, should be determined as soon as possible after the end of the year and credited to customers in 1978 by deferring the 1978 bulk power rate increase.
5. Ontario Hydro should ensure that the credits under the Anti-Inflation program are passed on to the ultimate consumer in an appropriate way and should use its powers of regulation of the municipal distribution systems in order to do so.

The Board was unable to find a basis for concluding that there should be no rate increase for 1978. However, taking into consideration the \$30 million reduction in the revenue requirement and the 1977 excess revenue rebate, the average increase to bulk power customers was calculated to be about 4%. The Board recommended that the rebate be accomplished by a deferral of any rate increase until about August of 1978 at which time a 9 3/4% increase would be necessary.

The Board also recommended that by April 30, 1978, the Minister obtain a report from Hydro regarding its efforts to increase productivity and improve the budgetary process. The Board suggested that the Report would be helpful in dealing with 1979 bulk power rates.

The recommendations of the Board were generally accepted by Hydro, although a net rate increase of 3 1/2% was implemented on January 1, 1978. The 1977 excess revenue is being rebated on a monthly basis according to 1978 consumption.

Costing and Pricing

The public hearing on the principles of electricity costing and rate making appropriate for use by Ontario Hydro progressed steadily through the fiscal year with the completion of Phases I and II and the near completion of Phase III. A brief description of the Phases in the order they are to be heard is as follows:

- Phase I - the theoretical foundation of marginal pricing, alternative pricing objectives and an overview of Hydro's "Electricity Costing and Pricing Study"
- Phase II - revenue requirement, depreciation and cost allocation
- Phase III - time-of-use costing methodology and demand elasticity
- Phase IV - rates and their impact

Of the 36 intervenors registered, 11 have actively participated in varying degrees in the presentation and testing of evidence. The Board has sat for 59 days with 8,630 pages of transcript being produced.

The taking of Phase I evidence concluded on June 30, 1977. Thereafter the Board heard argument on the issue of costs and on a motion brought by the Association of Major Power Consumers in Ontario ("AMPCO"), one of the intervenors.

The AMPCO motion requested the Board, inter alia, to render an interim report to the Minister of Energy requesting the Minister to take back the Reference to the Board because Hydro had proceeded incorrectly in proffering its Study. In Reasons for Decision dated July 26, 1977, the Board denied the motion and directed that the hearing of the Reference should continue. The Board also awarded costs in differing amounts to those intervenors taking an active and effective part in the hearing of Phase I.

Inco Limited and the Ontario Municipal Electric Association, two other intervenors, had previously given notice of a motion requesting a postponement of the hearings until Hydro had produced certain further materials. Hydro agreed to provide most of the requested materials, and had set a timetable for their filing. Based on the proposed timetable, the phases of the hearing required rescheduling, which was done by Board procedural order.

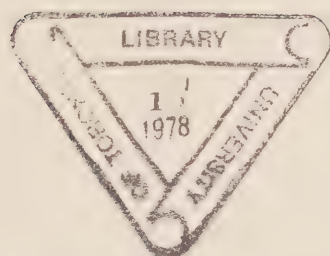
Phase II proceedings concluded on November 25, 1977, and resulted in an interim report to the Minister dated March 13, 1978, entitled "Depreciation Policy and Procedures For Major Fixed Assets In Ontario Hydro". In the Report the Board recommended the adoption of most of Hydro's proposals relating to depreciation. In some instances the Board recommended that further hearings be held. The Board also recommended that the proposed change to the straight line

remaining life procedure be deferred until either the Anti-Inflation Guidelines are removed or Hydro is exempted from them.

Phase III commenced on January 10, 1978, and proceeded for 17 sitting days after which time the major portion of evidence had been presented and tested. The matter was then adjourned sine die into the next fiscal year for the examination of two studies that are being prepared.

By the end of the fiscal year the Board had not yet rendered its decision on a motion by AMPCO that was heard on February 17, 1978. The motion basically requested further studies to be made by Hydro using certain marginal cost and historic cost methodologies.

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Ontario Energy Board

ANNUAL REPORT

FISCAL YEAR ENDED MARCH 31, 1979

ANNUAL REPORT

FISCAL YEAR ENDED MARCH 31, 1979



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Ministry of
Energy

416/965-4286

Queen's Park
Toronto Ontario

July 12, 1979


TO THE HONOURABLE PAULINE M. MCGIBBON
O.C., B.A., LL.D., D.U. (OTT)

Lieutenant-Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the Nineteenth
Annual Report for the Ontario Energy Board
for the fiscal year ended March 31, 1979.

Respectfully submitted


James A.C. Auld,
Minister



of the
an

Ontario
Energy
Board

416/963-0815

9th Floor
14 Carlton Street
Toronto Ontario
M5B 1J2

June 19, 1979

Honourable James A.C. Auld
Minister of Energy
Queen's Park
Toronto, Ontario
M7A 2B7

Dear Mr. Auld:

I have the honour to present herewith the Annual
Report of the Ontario Energy Board for the fiscal
year ended March 31, 1979.

Respectfully submitted,

Robert H. Clendining
Chairman

NINETEENTH ANNUAL REPORT

OF THE

ONTARIO ENERGY BOARD

FISCAL YEAR ENDED MARCH 31, 1979

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ONTARIO ENERGY BOARD

ANNUAL REPORT

Fiscal Year Ended March 31, 1979

INTRODUCTION

Role of the Board

[The Ontario Energy Board was established in 1960 as the successor to the Ontario Fuel Board. It reports annually to the Minister of Energy. Pursuant to The Ontario Energy Board Act (the "Act") and The Municipal Franchises Act, the Board regulates rates and certain other matters relating to the operations of provincial natural gas utilities, construction of pipelines and, where necessary, expropriation of land for that purpose, and unitization of interests in gas and oil for purposes of production. The Board bases its regulatory decisions on the evidence presented by the parties at a public hearing and on information within its specialized knowledge of which it may take notice.

Upon reference being made to it, the Board also has an advisory function to the Minister of Energy on Ontario Hydro's bulk power rates and rate-related matters, to the Lieutenant Governor in Council on any question respecting energy, and to the Minister of Natural Resources on certain matters relating to oil and gas production.

Major Activities of the Board

1- The Board continued to be very active throughout the fiscal year ended March 31, 1979. The principal matters dealt with were the rate-related proceedings of Ontario Hydro, including the costing and pricing hearing, and the rate proceedings of the three major natural gas distributors: The Consumers' Gas Company ("Consumers'"), Union Gas Limited ("Union") and Northern and Central Gas Corporation Limited ("Northern and Central").] These matters alone required the Board to sit for 150 days.

└ The major gas rate applications resulted from the continued escalation of the cost of gas and distribution, with the gas cost increases resulting principally from the fact that the Federal Government increased the Toronto city-gate price of natural gas from \$1.85 per thousand cubic feet ("Mcf") to \$2.00 per Mcf on August 1, 1978.]

└ The Board completed the Phase II (rate design) portion of Consumers' application from the previous fiscal year and the Phase I (rate base, return thereon and reasonable return) portions of the applications of Northern and Central and Union. Union's Phase II proceedings were also completed. A new Phase I was in progress for Consumers' at the end of the fiscal year. As part of the rate proceedings of these utilities, the

Board heard applications for interim relief due to the increased cost of gas and distribution. In addition, interim relief was granted to both Inter-City Gas Limited and The Medina Natural Gas Company, Limited.]

[In accordance with the Act, the Minister of Energy again referred to the Board for investigation and report the increased bulk power rates of Ontario Hydro, in this case those proposed for calendar year 1979. The separate matter of the Ontario Hydro costing and pricing proceeding, which resulted from the Minister's reference in fiscal 1976-77, continued during the 1978-79 fiscal year and will be completed in the new fiscal year.

[During 1978 Board staff held a series of meetings with the Ontario Natural Gas Association to formulate procedures for the conversion of gas rates and measurements to metric units ("SI") in the fall of 1979.]

[In July 1978, the Board introduced new prehearing procedures which apply to all gas rate and pipeline construction cases. Basically they provide that a matter will not be set down for hearing until all required evidence has been received by the Board and examined by Board staff. The new procedures are intended to expedite the hearing process.

COMPOSITION OF THE BOARD

At the end of March 1979, the Board consisted of nine full time Members and two part time Members, namely:

R. H. Clendining, P.Eng.	- Chairman
S. J. Wychowanec, Q.C.	- Vice-Chairman
I. C. MacNabb, P.Eng.	- Vice-Chairman
H. R. Chatterson, B. Comm.	- Member
J. C. Butler, P.Eng.	- Member
J. R. Dunn, P.Eng.	- Member
D. M. Treadgold, Q.C.	- Member
I. B. MacOdrum, LL.B.	- Member
W. W. Stevenson, Ph.D.	- Member
A. B. Jackson, Q.C.	- Part-time Member
L. Waverman, Ph.D.	- Part-time Member

Mr. Clendining, formerly Senior Advisor, Crude Oil and Natural Gas, at the Ministry of Energy was appointed Chairman during the latter part of April 1978, upon the retirement of Mr. Jackson. Mr. Jackson continued to serve the Board as a part-time Member until the end of March 1979.

Mr. MacOdrum, formerly General Counsel to the Polar Gas Project, joined the Board in March 1979.

Dr. Stevenson continued his role as a Member of the Royal Commission on Electric Power Planning, and is expected to remain in that capacity for most of 1979.

Principal staff of the Board were:

Director of Operations	- D. D. McLean
Board Secretary	- S.A.C. Thomas
Energy Returns Officer and Manager, Financial Analysis	- O. J. Cook
Board Solicitor	- L. Grahlm
Special Projects Officer	- D. R. Cochran
Manager, Engineering	- C. J. Mackie
Board Engineer	- H. Strozyk (on leave)
Financial Analyst	- A. Meddows-Taylor
Financial Analyst	- A. M. Parekh
Financial Analyst	- R. Cappadocia

SUMMARY OF PROCEEDINGS BEFORE THE BOARD

During the fiscal year, 87 proceedings were commenced before the Board: 82 by application, 3 by ministerial reference, and 2 by letter of request.

A classification of the proceedings completed is as follows:

Under The Ontario Energy Board Act

	<u>Number</u>
Rates and other charges for gas	16
Gas Storage	5
Leave to construct pipelines	3
References by Ministers	2
Miscellaneous	15

Under The Municipal Franchises Act

Gas franchises	36
Certificates	<u>3</u>
TOTAL	<u>80</u>

Hearings were held at locations convenient to interested parties. Fifteen were held outside Toronto: at Cayuga, London, Sarnia and Tillsonburg.

ANTI-INFLATION PROGRAM

As outlined in the Annual Report for fiscal 1977-78, the Board has been applying the Anti-Inflation Guidelines in regulating the rates of the privately-owned gas distributors. The two publicly-owned gas distributors in Kingston and Kitchener continued to be price-monitored by the Energy Returns Officer. In each case the rates were tested by the profit margin rules set out in section 18 of the Anti-Inflation Guidelines. The Anti-Inflation program ended on December 31, 1978.

In accordance with the Reference from the Minister of Energy, the Board reported on the extent to which Ontario Hydro's estimate of 1979 revenues complies with the spirit and intent of the Guidelines, in particular the net margin test. The Board also made recommendations

regarding the most appropriate treatment of Ontario Hydro's 1978 excess revenues.

NATURAL GAS

Rates

The Board deals with the main rate applications of the major gas distributors in two phases. In Phase I the Board determines rate base, actual return on rate base, and reasonable return on rate base. Roughly speaking, rate base represents the investment which the distributor has made in its business. In Phase II the Board determines the actual rates necessary to permit the distributor to earn the reasonable return on rate base.

1. The Consumers' Gas Company

(a) Phase II Proceedings

✓ In October 1978, the Board rendered its decision on the concluding Phase II portion of Consumers' main application of May 1977.

In response to a previous Board request, Consumers' introduced a long run incremental cost study intended to show the future capital and operations and

maintenance cost of service of the various customer classes. The Board stated that although both conventional fully-allotted cost studies and incremental cost studies provide valuable guidelines for rate design, there are other factors which are important in the development of rates. Rate of return by service classification, the risk element by service classification and competition from other fuels were specifically mentioned.

In compliance with another Board request, the Applicant presented a price elasticity of demand study. The Board found it to be of little value in the form presented and directed Consumers' to present a more complete analysis in its next rate case.

Regarding confidentiality of contracts, the Board ordered Consumers', in co-operation with Board staff, to prepare a summary of the pertinent details of its contracts with interruptible customers. The summary is to be updated quarterly and will be available at the Board's office for public scrutiny.

The Board also required Consumers' to make adjustments in certain rate schedules and to refile them. Included were increases in the minimum monthly charge to residential and general service customers, decreases in the rate differentials at points of reclassification between rate schedules, and elimination of the differentials between commercial and industrial rates as such.

(b) Interim Proceedings

To pass on the effect of the August 1, 1978 gas cost increase from TransCanada PipeLines Limited ("TransCanada"), the Board granted Consumers' interim relief of 13.09¢ per Mcf effective on that date. The Board deferred consideration of the credit owing to customers for lower-cost gas in storage to the winter heating season and, in March 1979, required it to be rebated to customers by means of a credit to their bills.

The Board also dealt with an interim request for \$10,205,100 to offset an alleged revenue deficiency supported by figures for Consumers' fiscal 1978, and an additional \$7,649,300 to offset higher unit gas costs resulting from reduced volumes of gas which Consumers' expects to take from TransCanada in fiscal 1979. The request was denied.

The Board noted that the adjustments made by Consumers' to its previously tested budgeted figures for its fiscal 1978 were not of an extraordinary nature nor could they be accepted without being fully tested. The Board stated that Consumers' financial integrity would not be jeopardized by the denial of the application.

In denying the claim for additional gas costs, the Board noted that the projected increase in costs does not result from a change in TransCanada's tariffs but rather in Consumers' forecasts, that the problem might be

averted, and that Consumers' had options open to it as to the accounting treatment of the projected cost increases.

(c) New Phase I Proceedings

In August 1978, Consumers' filed a new main application. The Phase I hearing commenced in March 1979, and was virtually completed by the end of the Board's fiscal year. Consumers' claims a revenue deficiency of \$25,909,400 to \$27,351,700 for its fiscal 1979, assuming a reasonable rate of return on rate base of 10.53% to 10.62%.

2. Union Gas Limited

(a) Phase I Proceedings

In July 1978, the Board rendered its Phase I decision in respect of Union's main rate application. The test year was Union's fiscal year ended March 31, 1978. Rate base was determined to be \$563,302,000 and the reasonable rate of return 10.58%, calculated as follows:

<u>Capital Component</u>	<u>Percentage</u>	<u>Cost Rate</u>	<u>Return Component</u>
Long-term debt	60	9.44%	5.66%
Preference stock	10	7.48%	0.75%
Common equity	<u>30</u>	13.90%	<u>4.17%</u>
	<u>100</u>		<u>10.58%</u>

The revenue deficiency found by the Board was \$11,091,000 as compared to Union's figure of \$17,330,000. Nearly all of the \$11,091,000 was already being recovered pursuant to interim rate relief granted by the Board in February 1978.

In October 1978, rather than proceeding with Phase II of its main application, Union brought an application requesting that the Phase I findings be updated on the basis of a test year ended March 31, 1979. After a hearing before the Board, the request was refused.

(b) Phase II Proceedings

The hearing of Phase II of the main application concluded in February 1979, and the Board rendered its decision a month later.

In order to show trends, Union had prepared cost allocation studies for 1977 and 1978 upon the same basis as its 1976 study presented in its last Phase II. Union however relied on a revised 1978 study which purported to show more reliable figures for revenue deficiencies and excesses for the various customer classes. The Board accepted the revised study as being in general accord with its wishes, but stated that the results of the study must be used with great caution.

The Board indicated that Union should move toward cost-based rates unless other factors could justify deviation from cost. Where cost allocation studies show movement away from cost for any customer class, Union should clearly demonstrate the justification for doing so.

The Board suggested that Union should in future give greater weight to simplicity in rate design, and also gave Union more specific recommendations in regard to some of its rate schedules. For the present the Board made some changes in the schedules proposed by Union, including rate changes which would result in increased annual revenue of some \$493,000 from Rate 1 (residential) customers and decreased revenue from some of the other classes, principally Rate 4 (firm industrial and commercial) and Rate 9 (City of Kitchener).

(c) Interim Proceedings

In September 1978, Union applied to pass on the August 1 TransCanada and other gas supplier increases. Effective November 25, 1978, the Board allowed an increase of 12.06¢ per Mcf to residential and other fixed rate customers. Similar increases were allowed to other customers effective September 15, 1978. The purpose of the delays in effective dates from August 1 was primarily

to give customers credit for the lower-cost gas in storage on July 31.

3. Northern and Central Gas Corporation Limited

(a) Phase I Proceedings

The Board's Phase I decision in Northern and Central's main rate application was rendered in February 1979. The test year was Northern and Central's fiscal year ended December 31, 1977. Rate base was determined to be \$152,964,494 and the reasonable rate of return 10.47%, calculated as follows:

<u>Capital Component</u>	<u>Percentage</u>	<u>Cost Rate</u>	<u>Return Component</u>
Long-term debt	43.06	8.71%	3.75%
Preference stock	12.16	6.84%	0.83%
Accumulated tax deferrals	3.88	3.00%	0.12%
Common equity	<u>40.90</u>	14.10%	<u>5.77%</u>
	<u>100.00</u>		<u>10.47%</u>

Excluding the revenue deficiencies found in interim proceedings, the deficiency found by the Board was \$176,498 as compared to \$3,219,556 proposed by Northern and Central.

On the grounds that there were no extraordinary circumstances, the Board did not award costs to intervenors who had participated in the proceeding. One

of the intervenors, representing 40 municipalities in Northern and Central's service area, thereupon filed a petition with the Lieutenant Governor in Council requesting that costs be awarded to it and to the Industrial Gas Users Association, another intervenor. The petition was pending at the end of the fiscal year.

(b) Interim Proceedings

In February 1978, the Board had permitted Northern and Central to recover an annual revenue deficiency of \$4,800,000. Thereafter the Company applied for an additional \$7,480,000 in order to earn the 10.91% rate of return on rate base it was claiming in the pending Phase I. In its decision dated July 20, 1978, the Board permitted Northern and Central to recover \$4,260,000.

Northern and Central also applied for and was granted rate increases to reflect the August 1, 1978 increase in the cost of gas purchased from TransCanada. Both these rate increases and those which resulted from the decision of July 20 were made effective on August 1, 1978. Together they amounted to 23.436¢ per Mcf for firm service, 17.746¢ per Mcf for special contract firm service, 9.061¢ per Mcf for fixed rate interruptible service and 3.371¢ per Mcf for special contract interruptible and seasonal winter interruptible service.

4. Others

Inter-City Gas Limited was granted interim rate increases of 8.31¢ per Mcf for general service and 8.19¢ per Mcf for interruptible service effective October 1, 1978, due to increased gas costs from its supplier, ICG Transmission Limited.

The February 1978 application of The Medina Natural Gas Company, Limited ("Medina") resulted in rate increases of about 58¢ per Mcf for the Medina Division and 75¢ per Mcf for the Belmont Division, both effective April 17, 1978. The increases resulted from increases in the cost of gas and internal costs. Effective March 1, 1979, Medina received a further rate increase of 13¢ per Mcf due to further increases in the cost of purchased gas.

At the beginning of the fiscal year the Board extended the existing rates of Tecumseh Gas Storage Limited without a hearing for a period of not more than a year. The rates of Wellandport Gas Company Limited were also extended, as were those of the joint venture of Union and Imperial Oil Limited relating to the Bickford and Sombra gas storage pools.

Accounting Orders

In November 1978, Union proposed that the accounting order regarding its purchase of synthetic natural gas

from Petrosar Limited remain in effect until March 31, 1979. The proposal was prompted by Union's new agreement with Northern Natural Gas Company of Omaha ("Northern") dated October 30, 1978. The Board permitted the order to continue in effect and directed Union to notify it of developments.

On March 12, 1979, Union notified the Board that the Economic Regulatory Administration of the United States Department of Energy had denied Northern permission to import the Petrosar gas. Consequent upon a further new agreement between Union and Northern dated March 28, 1979, Union requested approval to extend its accounting order to November 1, 1979, the expiry date of the new agreement. As of March 31, 1979, the Board's disposition of this request was pending.

In January 1979, Consumers' requested approval to defer the cost of gas resulting from demand charges related to volumes projected not to be taken from TransCanada during the contract year commencing November 1, 1978. The Board granted approval upon condition.

Gas Storage

During the fiscal year the Board recommended to the Lieutenant Governor in Council that about 700 acres known as the Wilkesport Pool located in the Township of Sombra, County of Lambton, be designated as a gas storage area.

The land was so designated by Ontario Regulation 496/78 filed June 27. The Board authorized Tecumseh Gas Storage Limited to operate the Pool.

The designation for gas storage of the Dawn #1 Pool located in the Township of Dawn, County of Lambton, was revoked by Ontario Regulation 372/78 filed May 18. The Pool had been designated in 1950 but was found unsuitable for storage by the operator, Union.

The Board also approved the parties, term and storage in respect of agreements whereby Union would store gas for Consumers' and TransCanada. The contract with Consumers' provides for a maximum storage balance of 7.5 billion cubic feet and a maximum term of about 20 years. Consumers' also has a short-term contract on a best efforts basis. The contract with TransCanada is also a short-term contract on a best efforts basis, and is subject to Consumers' storage needs.

Drilling

The Minister of Natural Resources referred to the Board for report applications by Tecumseh Gas Storage Limited to drill six wells within the newly-designated Wilkesport Pool gas storage area. The Board did not consider that there were special circumstances associated with the proposed drilling so as to necessitate a public hearing and reported to the Minister that the applications should be granted.

Pipelines

In June 1978, the Board granted Tecumseh Gas Storage Limited leave to construct a 16-inch transmission line from its compressor station in the Township of Moore, County of Lambton, some eight miles to the Wilkesport Pool.

The Board refused Union's application to build a 12-mile transmission line from its Dawn-Trafalgar lines north to Clandeboye. The proposed line would in effect have looped a portion of Union's existing line to Hensall. The Board concluded that there was insufficient proof of the need for and the economic feasibility of the proposed line.

Expropriations

During the fiscal year the Board issued orders authorizing Union to expropriate 10 pipeline easements. Two of these, including a temporary easement, were in the Township of Lobo to Township of London section of the 42-inch line to loop the Dawn-Trafalgar transmission lines.

The other eight included three temporary easements and were on the line from the Dawn-Trafalgar lines to Tillsonburg. One of the affected landowners, Anthony T. Varga, filed a petition with the Lieutenant Governor in Council in respect of expropriation orders

relating to his property. The petition resulted in those orders of the Board being confirmed by Order-in-Council 3509/78 dated December 6.

Franchises and Certificates

A municipal franchise and the approval of the Board in the form of a certificate of public convenience and necessity are required in order to construct and operate a gas distribution system in a municipality. Prior to a franchise by-law being enacted by the municipality, its terms and conditions and period must be approved by the Board and the by-law must receive either the assent of the municipal electors or dispensation of such assent by the Board. The Board normally approves a franchise period of 20 to 30 years whereas certificates are for an indefinite period.

During the fiscal year the Board approved 31 proposed franchises and extended 2 others, for the following distributors and municipalities:

Consumers' - the Cities of Barrie, Port Colborne and Vanier, the Towns of Alexandria and Campbellford, the Villages of Beeton, Cookstown and Petawawa, the Townships of Admaston, Bathurst, Brock, Cumberland, Gloucester, Manvers, Nepean, Percy, Petawawa and Westmeath.

Union - the City of London, the Town of Meaford,
the Townships of Collingwood, Moore and Sarnia.

Northern and Central - the Cities of Cornwall and
Thunder Bay, the Towns of Dryden, Geraldton and
Trenton, the Village of Cardinal, the Townships
of Casimir, Jennings and Appleby, Haldimand and
Nipigon, the Improvement District of Red Rock.

In the case of the Village of Cookstown the Board
also granted a certificate to the distributor,
Consumers'. In the other cases the distributor was
already operating in the municipality under a previous
franchise and certificate.

In each case except those involving the Townships of
Moore and Westmeath, the distributor and the municipality
had agreed on the terms of the proposed franchise and,
upon the request of the municipality and in the
circumstances of the case, the Board declared and
directed that the assent of the municipal electors to the
proposed franchise was not necessary. In the cases of
the Townships of Moore and Westmeath the distributor and
the municipality had been unable to reach agreement and
the Board extended the existing franchises, under section
10 of The Municipal Franchises Act. Neither assent of
the electors nor dispensation thereof is necessary in the
case of such extensions.

In the Township of Moore case the Board ruled that payment by Union of franchise fees, security deposits and administration fees for road or ditch crossings are not in the public interest and should therefore not be contained in the franchise. The Board also ruled that Union should not be liable for the negligence of any party other than its own officers, servants and agents, and the Board approved an indemnity clause accordingly.

Discontinuance of Service

In March 1979, the Board rendered its decision in respect of the third phase of Union's application to discontinue distributing gas to certain customers in the Regional Municipalities of Haldimand-Norfolk and Hamilton-Wentworth.

The Board found that the lines in question were old gathering lines which had been acquired by Union and that it had not been possible to prevent their deterioration. The Board stated that the lines should be discontinued and in each case considered whether it would be reasonable, considering economic feasibility and other matters, for Union to replace the line.

Of the 48 customers considered, the Board permitted Union to discontinue service to 35 upon payment of change-over assistance according to a formula similar to

that prescribed by the Board in the previous two phases. Discontinuance was refused outright in the case of 2 customers and in the case of 11 others provided they would enter into agreements with Union to make appropriate capital contributions. Five of the 11 had already entered into such agreements.

STEAM RATES

In August 1978, Industrial Steam Limited filed an application for a steam rate increase. However, in January 1979, the Company advised the Board that it had sold its steam plant to the Town of Ajax and would not be proceeding with the application.

ONTARIO HYDRO

Bulk Power Rates

In May 1978, the Minister of Energy referred to the Board for investigation and report Ontario Hydro's proposed bulk power rates for 1979. An average increase of 9.8% was proposed for the 334 municipal utilities and 10.1% for the 106 direct industrial customers.

The Minister requested that:

"Rate increases should only be allowed on the basis of clearly established cost increase net income requirements."

The Board was also instructed that a debt-equity ratio no greater than 85/15 should be regarded as appropriate for 1979.

The Board was specifically requested to report on certain matters, including the following:

- a) The extent that Ontario Hydro's estimated net income for 1979 complies with the spirit and intent of the net margin test under the former Anti-Inflation Guidelines, and the most appropriate treatment of possible 1978 excess revenue;
- b) The estimated effect of the rate proposal on Ontario Hydro's interest coverage as an indicator of financial integrity; and
- c) Ontario Hydro's report entitled "Corporate Initiatives to Increase Efficiency and Effectiveness".

The hearing commenced on July 10 and concluded on August 2 after 15 hearing days. Fourteen interventions were received as well as several letters of concern. Of the intervenors, only the Consumers' Association of Canada, the Ontario Municipal Electric Association and Inco Metals Company chose to conduct cross-examination. In addition to these parties, argument was submitted by the Association of Major Power Consumers in Ontario.

Written submissions were received from the Ontario Federation of Agriculture, the Ontario Mining Association, Noranda Mines Limited and Sudbury Hydro.

Ontario Hydro's forecasted total revenue requirement for 1979 was \$2,130 million which included \$221 million in net income. The Board accepted the revenue requirement figure for rate making purposes and found the net income figure to be in compliance with the Anti-Inflation Guidelines.

Application of the net margin test to the forecast for 1978 indicated that \$129 million in excess revenues should be returned to Ontario Hydro's customers in 1979. The Board suggested that the method of rebate be the same as in the previous year, in other words in proportion to the bulk power revenue from each customer in the year that the rebate is made, and that interest should not be added to the rebate.

The Board's report to the Minister also indicated the following:

- a) The forecasted level of net income in 1979 would result in an interest coverage of 1.24 and a debt ratio of 0.847. Both indicators are lower than Ontario Hydro's established targets, but the debt ratio would be slightly better than the limit established by the Minister; and

- b) The Board was satisfied that some net savings have resulted from Ontario Hydro's attempt to improve its efficiency and productivity and recommended that studies currently in progress should be continued.

The report concluded with further recommendations and comments for the consideration of the Minister.

On January 1, 1979, Ontario Hydro increased its rates in accordance with its proposal and the Board's report.

Costing and Pricing

The public hearing on the principles of electricity costing and rate making appropriate for use by Ontario Hydro progressed steadily through the fiscal year with the completion of Phases III and IV and the examination of intervenors' evidence, leaving only final argument to be submitted early in the next fiscal year. A brief description of the Phases in the order they were heard is as follows:

- Phase I - the theoretical foundation of marginal pricing, alternative pricing objectives and an overview of Hydro's "Electricity Costing and Pricing Study."

Phase II - revenue requirement, depreciation
and cost allocation,

Phase III - time-of-use costing methodology and
demand elasticity, and

Phase IV - rates and their impact.

Of the 36 intervenors registered, 12 presented evidence prior to or at the conclusion of Phase IV. During the fiscal year the Board sat for 71 days with some 11,500 pages of transcript being produced.

In May 1978, Ontario Hydro brought a motion requesting the Board to restrict the scope of Phase IV. The motion was denied in a written decision dated August 24, 1978.

In another written decision, dated September 22, 1978, the Board denied a motion by the Association of Major Power Consumers in Ontario ("AMPCO") requesting that further studies be done by Ontario Hydro using certain marginal and historic cost methodologies. The motion had been heard on February 17, 1978.

On January 25, 1979, the Board denied a motion by the National Anti-Poverty Organization ("NAPO") to order Ontario Hydro to provide answers to questions relating to the cost to serve particular types of customers. Then on January 29 the Board denied a motion by AMPCO to have part of NAPO's evidence struck out.

COST OF ADMINISTRATION

The Board's total expenditures for the fiscal year amounted to \$1,175,805 of which \$363,575 was recovered from applicants by way of fees and costs and paid into the Consolidated Revenue Fund.

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Ontario Energy Board

ANNUAL REPORT

Fiscal Year Ended March 31, 1980

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ANNUAL REPORT

Fiscal Year Ended March 31, 1980





Office of the
Minister

Ministry of
Energy

416/965-4286

Telex
Enrgy Tor
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Queen's Park
Toronto Ontario

April 10, 1980

TO THE HONOURABLE PAULINE M. McGIBBON
O.C., B.A., LL.D., D.U. (OTT)

Lieutenant-Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the Twentieth
Annual Report for the Ontario Energy Board
for the fiscal year ended March 31, 1980.

Respectfully submitted

A handwritten signature in dark ink, appearing to read "Robert Welch".

Robert Welch
Minister of Energy



Ontario
Energy
Board

416/963-0815

9th Floor
14 Carlton Street
Toronto Ontario
M5B 1J2

March 31, 1980

Honourable Robert Welch, Q.C.
Minister of Energy
Queen's Park
Toronto, Ontario
M7A 2B7

Dear Mr. Welch:

I have the honour to present herewith the
Annual Report of the Ontario Energy Board for the
fiscal year ended March 31, 1980.

Respectfully submitted,

Robert H. Clendining
Chairman

TWENTIETH ANNUAL REPORT

OF THE

ONTARIO ENERGY BOARD

Fiscal Year Ended March 31, 1980

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ONTARIO ENERGY BOARD

ANNUAL REPORT

Fiscal Year Ended March 31, 1980

INTRODUCTION

Role of the Board

The Ontario Energy Board was established in 1960 as the successor to the Ontario Fuel Board. It reports annually to the Minister of Energy. Pursuant to the Ontario Energy Board Act (the "Act"), The Municipal Franchises Act and The Petroleum Resources Act, the Board regulates rates and other matters relating to the operations of provincial natural gas utilities as well as certain aspects of the oil and gas industry. The Board bases its regulatory decisions on the evidence presented by the parties at a public hearing and on information within its specialized knowledge of which it may take notice.

Upon reference being made to it, the Board also has an advisory function to the Minister of Energy on Ontario Hydro's bulk power rates and rate-related matters, to the Lieutenant Governor in Council on any question respecting energy, and to the Minister of Natural Resources on certain matters relating to oil and gas production.

Major Activities of the Board

The principal matters dealt with during the fiscal year ended March 31, 1980 were the rate-related proceedings of Ontario Hydro, including the conclusion of the costing and pricing hearing which commenced in 1977, and the rate proceedings of the natural gas distributors: The Consumers' Gas Company ("Consumers"), Union Gas Limited ("Union"), Northern and Central Gas Corporation Limited ("Northern and Central"), Inter-City Gas Limited ("Inter-City") and Natural Resource Gas Limited. The Board sat for a total of 115 days during the fiscal year on these and other matters.

The major gas rate applications resulted from the continued escalation of all costs and in particular the cost of gas supply and its distribution in Ontario. The Federal Government increased the Toronto city-gate price of natural gas (the price at which TransCanada PipeLines Limited ("TransCanada") delivers gas to southwestern and eastern Ontario) from \$2.00 per standard thousand cubic feet ("Mcf") to \$2.15 per Mcf on August 1, 1979 and to \$2.30 per Mcf on February 1, 1980.

The Board completed the Phase I (rate base, return thereon and reasonable return) portion of Consumers' application from the previous year. The phasing of rate hearings is described on page 6 of this Annual Report. Phase I proceedings for Union and Phase II (rate design)

proceedings for Consumers' and Northern and Central were pending at the end of the fiscal year. As part of the rate proceedings of these utilities, the Board dealt with applications for interim relief. In addition, interim rate relief was granted to Inter-City Gas Limited.

The Ontario Hydro costing and pricing proceeding was completed with the Board's report of December 20, 1979. The Board also reported to the Minister on the separate matter of the increased bulk power rates proposed by Ontario Hydro for the calendar year 1980.

The conversion of Union's gas rates into metric units ("SI") was completed during the fiscal year. It is expected that the conversion process for the other gas utilities will be completed during 1980.

The Board is continuing to examine its pre-hearing and hearing process with a view to streamlining it, and has already initiated some procedures to this end.

The Board initiated an interministerial committee to review and revise its "Environmental, Agricultural and Resource Guidelines for the Construction and Operation of Pipelines in the Province of Ontario". The Committee also reviews applications to the Board and to the National Energy Board in the context of pipeline construction and land restoration measures in Ontario.

The Municipal Franchises Amendment Act, S.O. 1979, c. 83 was enacted during the fiscal year. It clarifies that a Board order under s. 10 of that Act renewing or extending the term of a municipal gas distribution franchise is deemed to be a valid by-law of the municipality for the purposes of that Act.

COMPOSITION OF THE BOARD

At the end of March 1980, the Board consisted of eight full-time Members and one part-time Member, namely:

R. H. Clendining, P.Eng.	- Chairman
S. J. Wychowanec, Q.C.	- Vice Chairman
I. C. MacNabb, P.Eng.	- Vice Chairman
H. R. Chatterson, B.Comm.	- Member
J. C. Butler, P.Eng.	- Member
J. R. Dunn, P.Eng.	- Member
D. M. Treadgold, Q.C.	- Member
I. B. MacOdrum, LL.B.	- Member
L. Waverman, Ph.D.	- Part-time Member

Dr. W. W. Stevenson, formerly a Member of the Board who was appointed to the Royal Commission on Electric Power Planning during the 1977-78 fiscal year, was appointed Executive Coordinator of the Strategic Planning and Analysis Group at the Ministry of Energy following the completion of the Commission proceedings in December of 1979.

Principal staff of the Board were:

Director of Operations	- D. D. McLean
Board Secretary	- S.A.C. Thomas
Energy Returns Officer and Manager, Financial Analysis	- O. J. Cook
Board Solicitor	- L. Graholt
Special Projects Officer	- D. R. Cochran
Manager, Engineering	- C. J. Mackie
Board Engineer	- H. Strozyk
Financial Analyst	- A. Meddows-Taylor
Financial Analyst	- A. M. Parekh
Financial Analyst	- R. Cappadocia
Economist	- M. F. Rodrigues

SUMMARY OF PROCEEDINGS BEFORE THE BOARD

During the fiscal year, 88 proceedings were commenced before the Board: 79 by application, 2 by ministerial reference, and 7 by letter of request.

A classification of the proceedings completed is as follows:

Under The Ontario Energy Board Act

	<u>Number</u>
Rates and other charges for gas	21
Gas storage	5
Leave to construct pipelines	2
Acquisitions	1
References by Ministers	4
Miscellaneous	9

Under The Municipal Franchises Act

Gas franchises	39
Certificates	2
TOTAL	<u>83</u>

In certain instances hearings were held at locations outside Toronto convenient to interested parties: namely, Mississauga, Sarnia and Rodney.

NATURAL GAS

Rates

The Board has been dealing with the main rate applications of the major gas distributors in two phases. In Phase I the Board determines rate base, actual return on rate base and reasonable return on rate base. Rate base represents the investment which the distributor has made in facilities which are used in its utility business. In Phase II the Board determines the actual rates (or price at which gas is sold to the various customer classes) necessary to permit the distributor to earn the reasonable return on rate base.

What follows is a brief description of the rate cases completed by the Board during the fiscal year.

1. The Consumers' Gas Company

(a) Phase I Proceedings

In August 1979, the Board rendered its decision on the Phase I portion of Consumers' main application filed in the previous fiscal year.

The rate base was determined to be \$810,678,800 as at September 30, 1979, Consumers' fiscal year end, and the reasonable rate of return 10.34%, calculated as follows:

<u>Capital Component</u>	<u>Percentage</u>	<u>Cost Rate</u>	<u>Return Component</u>
Long-term debt	49.5	9.28%	4.59%
Preference stock	12.8	6.52%	0.84%
Deferred taxes	3.0	1.83%	0.05%
Common equity	34.7	14.00%	4.86%
	<u>100.0%</u>		<u>10.34%</u>

The Board determined a revenue deficiency of \$15,565,000 on the basis of Consumers' budgeted figures for the fiscal year, as adjusted. ("Revenue deficiency" is the amount required to increase the return of the utility to that found reasonable by the Board.)

In order to monitor Consumers' marketing policy, the Board ordered the Company to submit for consideration in Phase II a proposal for monitoring the return and net present value on new sales resulting from system expansion commencing with the Company's fiscal 1979.]

Among other matters, the Board also ordered Consumers' to defer any higher unit gas costs resulting from reduced volumes taken from TransCanada in any fiscal year and to amortize such costs over the following three fiscal years, and to file in Phase II a specific proposal as to the mechanics of amortizing such costs.

At the end of the Phase I hearing a motion by Board counsel was heard requesting the Board to order a study by an independent expert to develop a capital structure for Consumers' Ontario utility operations. The Board ruled that a preliminary review of such study be filed within three months. The requested review was filed and, in October 1979, the Board directed that the study be completed as soon as possible.

(b) Interim Proceedings

Effective October 1, 1979, Consumers' was granted interim rate increases ranging from 1.2¢ per Mcf to 13.8¢ per Mcf to recover the revenue deficiency of

\$15,565,000 found in Phase I. The Board stated that in normal circumstances the levels of over- and under-contribution by customer classes should not be in issue during an interim proceeding except in the event of a considerable time lapse since the previous Phase II or a major or unexpected change in circumstances. Accordingly, the rate increases to the various customer classes were based on the cost allocation study tested in the previous Phase II, and on Consumers' sales volumes for its fiscal 1980.

During the fiscal year Consumers' was also granted the following interim rate increases to pass on the effect of the previously noted gas cost increases from TransCanada:

<u>Amount</u>	<u>Effective Date</u>
13.99¢ per Mcf	September 1, 1979
15.224¢ per Mcf	April 4, 1980

(c) Phase II Proceedings

Consumers' Phase II application of November 1979 was heard in January 1980 and the Board's decision was pending at the end of the fiscal year.

2. Union Gas Limited

(a) Phase I Proceedings

The hearing of Union's Phase I application of March 1979, including argument, was completed in December and the Board's decision was pending at the end of the fiscal year.

(b) Interim Proceedings

Effective January 1, 1980, Union was granted interim rate increases to recover \$14,186,000 of a claimed \$31,428,000 revenue deficiency due to increases in distribution costs. The Board accepted Union's proposal as to the method of recovery although it was not based on the cost allocation study tested in the previous Phase II. The Board stated that it was doing so because an extreme imbalance between revenues and allocated costs by customer class had occurred. In the result, recovery of the interim deficiency was entirely from Union's residential, general service and storage customers. This decision in effect refined the principle referred to in the Consumers' interim deficiency decision reported on pages 8-9 of this Annual Report.

During the fiscal year Union was also granted the following interim rate relief to pass on the effect of gas cost increases from TransCanada and its other suppliers:

- (i) An increase of 15.17¢ per Mcf to residential and other fixed rate customers, effective November 21, 1979. Other customers' rates were increased by similar amounts, effective September 1, 1979; and
- (ii) An increase of 15.65¢ per Mcf to residential and other fixed rate customers, effective March 19, 1980. Other customers' rates were increased by similar amounts, effective March 1, 1980.

As indicated earlier, the conversion of Union's rates into metric units ("SI") was accomplished during the year. It did not result in higher bills to Union's customers. Commencing September 1, 1979, the Board permitted billing in SI. Billing under some of the contract rate schedules is to become effective upon renewal of the contract, but not later than August 31, 1981. The rate increases granted to Union referred to in this Annual Report have been converted to the former Imperial units for ease of comparison as the rate schedules of the other gas utilities have not yet been converted to SI.

3. Northern and Central Gas Corporation Limited

(a) Phase I Proceedings

In the Board's Annual Report for fiscal 1978-79 it was mentioned that one of the intervenors in Phase I, representing 40 municipalities in Northern and Central's service area, had petitioned the Lieutenant Governor in Council requesting that costs be awarded to it and to the Industrial Gas Users Association, another intervenor. By Order-in-Council O.C. 1203/79 dated April 25, 1979, the Board's decision refusing costs was confirmed.

(b) Phase II Proceedings

In a decision dated April 27, 1979, the Board refused a motion by Northern and Central for certain directions in regard to studies which were to be filed for Phase II of its main application. In the special circumstances of the case the Board awarded costs of the motion to intervenors.

The hearing of Phase II commenced in March 1980 and was not completed by the end of the Board's fiscal year.

(c) Interim Proceedings

During the fiscal year Northern and Central was granted the following interim rate relief to pass on the effect of gas cost increases from TransCanada:

- (i) Increases ranging from 11.178¢ per Mcf to 16.975¢ per Mcf, effective August 1, 1979; and
- (ii) Increases ranging from 14.284¢ per Mcf to 14.942¢ per Mcf, effective February 1, 1980 for interruptible service and February 13, 1980 for firm service.

4. Others

(a) Inter-City was granted the following interim rate relief to pass on the effect of gas cost increases from its supplier, ICG Transmission Limited, which in turn receives its gas from TransCanada:

<u>Amount</u>	<u>Effective Date</u>
14.43¢ per Mcf	November 1, 1979
12.69¢ per Mcf	March 1, 1980

Inter-City was also granted temporary winter service rates for Boise Cascade Canada Limited for the 1978-79 and 1979-80 winters.

(b) Four Seventy Dundas Limited (now Natural Resource Gas Limited; see Acquisitions section of this Annual Report) was granted initial rates and other charges effective on bills rendered after September 18, 1979. The rates and other charges approved were

identical to those previously applicable to The Medina Natural Gas Company, Limited.

(c) The Board also extended the existing interim rates of Tecumseh Gas Storage Limited and of the joint venture of Union and Imperial Oil Limited relating to the Bickford and Sombra gas storage pools, for a period of not more than one year.

Accounting Orders

Early in the fiscal year the Board extended the accounting order permitting Union to defer in a special inventory account the cost of synthetic natural gas ("SNG") purchased from Petrosar Limited, together with carrying charges. The extension was granted to November 1, 1979, the expiry date of a new agreement whereby Union proposed to sell the SNG to Northern Natural Gas Company of Omaha ("Northern"). The agreement was subsequently extended on several occasions and the Board granted two further extensions of the accounting order, most recently to June 30, 1980.

On January 15, 1980, the Economic Regulatory Administration ("ERA") of the United States Department of Energy had authorized Northern, subject to condition, to import the gas in question at the then prevailing export price. However, the transaction failed to receive renewed ERA approval when the Canadian Government

increased the export price to \$4.47 (U.S.) per million British Thermal Units on February 17, 1980, and the agreement between Union and Northern expired on March 15, 1980.

During the fiscal year the Board also granted approval to Union, Northern and Central and Consumers' to make certain changes to their minimum rule and plant units for accounting purposes.

Unitization

By order made in December 1979, the Board unitized the various interests within the Aldborough Pool consisting of 900 acres located in the Township of Aldborough, County of Elgin, for the purpose of drilling or operating gas wells and the apportioning of costs and benefits. Clifford B. Coates, the applicant and owner of the majority of the working interests, was designated manager of the unit operation. The order is not to come into effect until a working interest agreement between the applicant and Consumers' is filed with the Board. Such an agreement had not been filed by the end of the fiscal year.

The Board ruled that the applicant should pay a royalty of 5% of the wellhead value of all gas sold from the Pool up to a total of \$50,000 in gross revenues in a particular calendar year, and 15% on the balance of the gross revenues.

Gas Storage

During the fiscal year the Board approved the parties, term and storage of a short-term agreement whereby Union would store additional gas for Consumers'. The agreement is on a best efforts basis and expired on March 31, 1980. The Board also permitted variation of the term and storage of an existing agreement between Union and Gaz Metropolitain, inc. of Montreal. The definite term of the agreement was extended to April 1, 1985, and the maximum storage balance to 170 000 10³ cubic meters.

As well, the Board permitted conversion into metric units ("SI") of the gas measurements under storage agreements between Union on the one hand and Consumers', Northern and Central, the Public Utilities Commission of the City of Kingston and Gaz Metropolitain, inc. on the other hand.

Drilling

The Minister of Natural Resources referred to the Board for report applications by Tecumseh Gas Storage Limited for permits to drill two wells in the Wilkesport Storage Pool and two wells in the Kimball-Colinville Storage Pool, located respectively in the Townships of

Sombra and Moore, County of Lambton. The Board did not consider that there were special circumstances associated with these matters which would necessitate public hearings and recommended to the Minister that the applications should be granted.

Pipelines

In June 1979, the Board granted Consumers' leave to construct an 8-inch transmission line extension from the City of Pembroke some 13 miles to the Canadian Forces Base Petawawa. The construction was completed in September 1979 and the pipeline is in operation.

Exemptions

Union was granted an exemption under s. 38(3) of the Act for the construction of 6.7 miles of 8-inch transmission line from a proposed Consumers' gas plant near the Village of Morpeth to an existing Union line near the Town of Ridgetown. The construction was completed in October 1979 but the pipeline was not yet in operation at the end of the Board's fiscal year.

Franchises and Certificates

A municipal franchise and the approval of the Board in the form of a certificate of public convenience and necessity are required in order to construct and operate a gas distribution system in a municipality. Prior to a franchise by-law being enacted by the municipality, its terms and conditions and period must be approved by the Board and the by-law must receive either the assent of the municipal electors or dispensation of such assent by the Board. The Board normally approves a franchise period of 20 to 30 years whereas certificates are for an indefinite period.

During the fiscal year the Board approved 37 proposed franchises and extended 1 other, for the following distributors and municipalities:

Consumers' - the Cities of Niagara Falls and Peterborough, the Town of Midland, the Village of Victoria Harbour, the Townships of Alice and Fraser, Bromley, Flos, North Monaghan, Otonabee, Smith, Wainfleet and West Gwillimbury, the Regional Municipality of Niagara.

Union - the Towns of Oakville and Ridgetown, the Township of Brooke (for the Police Village of Inwood).

Northern and Central - the Cities of North Bay, Sudbury and Timmins, the Towns of Cobalt, Cochrane, Espanola, Haileybury, Hearst, Iroquois Falls, Kapuskasing, Kirkland Lake, Napanee, New Liskeard, Smooth Rock Falls and Sturgeon Falls, the Villages of Brighton, Burk's Falls, Colborne and Winchester, the Townships of Black River-Matheson and Ignace, the Regional Municipality of Sudbury.

In the case of the Town of Espanola the Board also granted a certificate to the distributor, Northern and Central. In the other cases, except for the Village of Burk's Falls where the certificate application was pending at the end of the fiscal year, the distributor already held a certificate in the municipality.

In each case except that involving the City of Peterborough, upon the request of the municipality and in the circumstances of the case, the Board declared and directed that the assent of the municipal electors to the proposed franchise was not necessary. In the case of the City of Peterborough the Board extended the existing franchise, under s. 10 of The Municipal Franchises Act, and neither assent of the electors nor dispensation thereof is therefore necessary. The City of Peterborough has appealed the Board's order to the Divisional Court.

In four of the cases, namely those involving the Cities of Niagara Falls, Peterborough and Timmins and the Town of Midland, the major issue was the indemnity clause contained in the proposed franchise agreement. The Board confirmed the ruling it had made in the Township of Moore case in the previous fiscal year that a distributor should not be liable for the negligence of any party other than its own officers, servants and agents. In the City of Niagara Falls' case the Board stated that the ruling followed from its belief that, in general, the public interest requires that the costs of operation of a gas system should be kept as low as possible. In the City of Peterborough case the Board, as it had in the Township of Moore case, also rejected the proposal that a distributor should pay a franchise fee to the municipality.

Acquisitions

1. Natural Resource Gas Limited

The Medina Natural Gas Company, Limited ("Medina") experienced financial difficulties and, in August 1979, went into receivership. The receiver subsequently entered into a provisional agreement to sell Medina's gas distribution system to Four Seventy Dundas Limited of London, Ontario, and requested the Lieutenant Governor in Council to make a regulation exempting the transaction

from s. 26 of the Act. At the request of the Minister, the Board reviewed the matter and provided a report to the Lieutenant Governor in Council. By Ontario Regulation 668/79 filed September 18 the requested exemption was granted.

The new gas distributor has changed its name to Natural Resource Gas Limited and continues to service the area in and around Aylmer formerly serviced by Medina.

2. Inter-City Gas Limited

In March 1980, the Board submitted its report and opinion to the Lieutenant Governor in Council on the application of Inter-City under s. 26 of the Act for leave to amalgamate with Canadian Homestead Oils Limited and for leave in respect of related matters.

By Order-in-Council O.C. 833/80 dated March 28, 1980, the leave requested was granted subject to the amalgamation receiving the approval of the shareholders of the two companies and being carried out in accordance with the amalgamation agreement. Shareholder approval was received on the same day.

ONTARIO HYDRO

Bulk Power Rates

In May 1979, the Minister of Energy referred to the Board for investigation and report Ontario Hydro's proposed bulk power rates for 1980. Ontario Hydro proposed an average increase of 9.9% for the municipal utilities and 7.8% for direct industrial customers.

The Minister requested that the Board report on the extent to which Ontario Hydro has kept its proposed 1980 bulk power cost increase as low as possible consistent with the maintenance of its financial soundness. The Board was also requested to examine the allocation of costs to the municipal utilities, the financial effects of Ontario Hydro's surplus generating capacity, future export sales strategy and Ontario Hydro's foreign exchange management strategy.

The public hearing concluded on July 27 after 14 hearing days. There were 17 intervenors whose degree of participation in the proceeding varied.

In its report of August 30, 1979, the Board recommended a reduction of over \$24 million from Ontario Hydro's forecasted total revenue requirement of \$2,315 million, thereby decreasing the average bulk power rate increase of 9.5% proposed by Ontario Hydro to 8.3%.

As well, the Board recommended that the differential in rate increases to the municipal utilities and direct industrial customers be diminished.

On January 1, 1980, Ontario Hydro increased its bulk power rates by an average of 8.3%, which was the figure recommended by the Board.

Among the many other specific recommendations in the Board's report, the following were included:

- (a) Ontario Hydro's debt/equity ratio and interest coverage should not be permitted to slip, in 1980, below the levels forecasted for 1979.
- (b) The amount that Ontario Hydro is permitted to borrow relative to what it collects from customers is a matter on which the Government should give policy direction.
- (c) Short-term export sales even at somewhat lower prices should be preferred to long-term export sales that might lead to insufficient reserve capacity for future Ontario requirements.
- (d) Ontario Hydro should examine the economics of devoting more resources to its foreign exchange management program.

Costing and Pricing Principles

The public hearing on the principles of electricity costing and rate making appropriate for Ontario Hydro was concluded on June 1, 1979 after 135 sitting days and more than 20,000 pages of transcript since its commencement in March 1977.

The Board submitted its final report to the Minister of Energy in December 1979, concluding that the following objectives for the pricing of electricity should be adopted:

- (a) Rates should be sufficient to recover Ontario Hydro's revenue requirement as currently determined in the annual bulk power rate hearings.
- (b) Rates should be fair, broadly defined as the equal treatment of those causing equal costs. The fairness objective requires that costs be tracked by rates, undue discrimination avoided, and all consumption regarded as new consumption.
- (c) Efficient allocation and use of resources in producing and distributing electricity (engineering efficiency) should be encouraged.

Economic efficiency, however, is not a measurable, achievable, or valid goal for Ontario Hydro. ("Economic efficiency" was defined as the allocation of society's scarce resources to maximize the satisfaction of consumers.)

- (d) Rate structures should be publicly acceptable and comprehensible, should provide rate stability, and should be feasible in application.

The Board also concluded that the concept of time-differentiated rates is consistent with the fairness objective and recommended that seasonal and daily rating periods be established at the bulk power level and, after further research, at the end-user level.

The Board rejected Ontario Hydro's proposal for marginal-cost-based pricing because of major problems of definition, determination and implementation, and recommended the continued use of accounting costs as the basis for costing and pricing.

Lack of comprehensive data on customer response and impact in the evidence meant that the significant effects of costing and pricing changes could not be identified. Consequently, the Board recommended that Ontario Hydro improve its data bank and develop adequate demand models,

compare the cost effectiveness of time-differentiated rates and other load management techniques for smaller end-users, begin selective rate experiments for all customer groups in the rural retail system and for municipal utilities, and prepare and discuss specific rate proposals with its bulk power customers.

The Board recommended the continuation of a single customer class at the bulk power level, but one consisting of the municipal utilities, the present direct industrial customers, and the rural retail system as a notional customer. The Board concluded that the problem of allocating diversity benefits would diminish if both energy- and demand-related costs were time-differentiated and a single customer class adopted.

The Board made several detailed recommendations on such matters as metering, rating periods and the interval of time used for determining demand charges. The Board cautioned against the introduction of any form of non-cost-based rates for purposes of income redistribution.

However desirable the universal application of new rate structures through to the end-user level may be, implementation may not yet be cost-effective or appropriate because, the Board observed, an important policy decision involving the statutory function of Ontario Hydro to regulate rates charged at the end-user level and

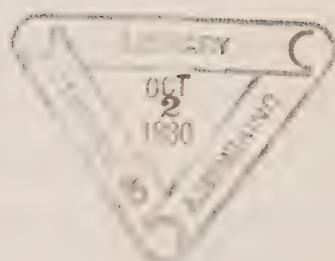
the need to respect municipal autonomy will be required. The Board also indicated the need for an appeal process for municipal utilities and end-users who wish to have an independent arbiter examine proposed rates, and better representation for end-users at public hearings before the Ontario Energy Board and during discussions with Ontario Hydro.

Costs were awarded to intervenors seeking them who had made a contribution to the proceeding.

COST OF ADMINISTRATION

The Board's total expenditures for the fiscal year are estimated at \$1,296,100 of which \$862,119 was recovered from applicants by way of fees and costs and paid into the Consolidated Revenue Fund. \$432,634 of the \$862,119 recovered resulted from the Ontario Hydro costing and pricing hearing and covered a 2-year period.

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ANNUAL REPORT

Fiscal Year Ended March 31, 1981

ANNUAL REPORT

Fiscal Year Ended March 31, 1981





Ministry
of
Energy

Queen's Park
Toronto, Ontario
M7A 2B7
416/965-2041
Telex 06217880

May 22nd, 1981

TO THE HONOURABLE JOHN BLACK AIRD
O.C., Q.C., B.A., LL.D.

Lieutenant Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the
Twenty First Annual Report for the Ontario Energy
Board for the fiscal year ended March 31st, 1981.

Respectfully submitted,

A handwritten signature in dark ink, reading "Robert Welch".

Robert Welch,
Minister of Energy.



Ontario
Energy
Board

416/963-0815

9th Floor
14 Carlton Str
Toronto Ontar
M5B 1J2

May 15, 1981

Honourable Robert Welch, Q.C.
Minister of Energy
Queen's Park
Toronto, Ontario
M7A 2B7

Dear Mr. Welch:

I have the honour to present herewith the
Annual Report of the Ontario Energy Board for the
fiscal year ended March 31, 1981.

Respectfully submitted,

Robert H. Clendining
Chairman

TWENTY FIRST ANNUAL REPORT

OF THE

ONTARIO ENERGY BOARD

Fiscal Year Ended March 31, 1981

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ONTARIO ENERGY BOARD

ANNUAL REPORT

Fiscal Year Ended March 31, 1981

INTRODUCTION

Role of the Board

Energy regulation has been a fact of life in Ontario from the time the Provincial Legislature passed an Act in 1907 aimed, in part, at preventing the wastage of natural gas. Later styled "The Natural Gas and Oil Wells Act", that piece of legislation marked the Province's early concern for the proper management of its energy resources -- a concern that has evolved, through The Natural Gas Act of 1918, The Natural Gas Conservation Act of 1921 and The Ontario Fuel Board Act of 1954.

The Ontario Energy Board in its present form was established in 1960 as successor to the Ontario Fuel Board. Today the Board is involved in a broad spectrum of energy-related matters ranging from regulation of natural gas rates to municipal franchise approval, from hydrocarbon pipeline construction and concomitant environmental concerns to control of utility accounting procedures.

Upon reference being made to it, the Board also acts in an advisory role to the Minister of Energy with regard

to Ontario Hydro, to the Minister of Natural Resources respecting certain oil and gas production concerns, and to the Lieutenant Governor in Council on other energy matters.

The Board's regulatory decisions are based on the evidence presented at public hearings and on information within its specialized knowledge of which it may take notice. No natural gas utility operating in Ontario under the Board's jurisdiction can increase its rates, construct certain facilities or enter into franchise agreements with municipalities without first obtaining the approval of the Board through the public hearing process.

The Board reports annually to the Minister of Energy.

Major Activities of the Board

□ With Ontario dependent upon Western Canada for approximately 98 percent of its natural gas needs, and with the national policy of increasing oil and gas prices towards world levels, applications for increased rates have again occupied the Board for the major part of its time, resulting in 34 separate decisions. These and 47 other applications of various types, including a reference from the Minister of Energy with respect to

Ontario Hydro's bulk power rates, have required a total of 97 hearing days. Summaries of these matters follow, and a classified breakdown of all cases dealt with in the year appears as Appendix 'B' to this Report.]

In addition to matters dealt with by way of the public hearing process, the Board has been engaged in matters of an operational nature which are summarized under "Other Matters." The Board has continued its program of reviewing its hearing procedures with the objective of expediting the overall hearing process. Board staff has also been involved in the affairs of the Ontario Pipeline Coordination Committee and a revision to the guidelines relating to pipeline construction in the Province.

REGULATORY HEARINGS

Natural Gas Rates

As part of its program to streamline the hearing process, the Board in the past year has taken a second look at the established practice of conducting major rate cases in two separate phases. The first phase has customarily dealt with the distributor's rate base (capital used in its operations) and revenue requirement (money the company needs to pay for gas purchased, to provide for operating expenses and depreciation and to

finance the capital used). The second phase has been to determine the rates to be paid by the various classes of customers in order to meet the revenue requirement so that the distributor may continue to maintain a reasonable quality of service to its customers. Each of these phases has in the past resulted in a separate decision with extensive written reasons summarizing the testimony and arguments of those who took part in the hearing, and the Board's rationale in arriving at its decision.

During the past year the Board has begun to integrate these phases into a single-phase hearing with only one decision and the reasons therefor. This practice accelerates the regulatory process, which is especially important with the increasing frequency each distributor must come before the Board because of escalating gas costs and the state of the economy in general.

During the fiscal year the Federal Government increased the Toronto city-gate price of gas (the price at which TransCanada PipeLines Limited delivers gas to southwestern and eastern Ontario) from \$2.30 per standard thousand cubic feet ("Mcf") to \$2.60 per Mcf on September 1, 1980. In addition, effective November 1, 1980, the Federal Government levied a natural gas excise tax of 30¢ per Mcf on gas purchased or produced by the distributors.

Upon application therefor, and following a public hearing, the Board permitted the gas distributors to increase their rates to pass on the effect of these cost increases.

Following are the highlights of the other rates cases dealt with by the Board during the fiscal year.

The Consumers' Gas Company*

[Consumers' Gas distributes gas in parts of southern and eastern Ontario, including Toronto. It also operates under the names of Brockville Gas, Grimsby Gas, Ottawa Gas and Provincial Gas.

[As a result of the Board's Phase II decision effective April 4, 1980, Consumers' rates already in effect on an interim basis received minor structural revisions. Rate increases resulting from the February 1, 1980, increase of 15¢ per Mcf in the Toronto city-gate price of gas were also effective on April 4, 1980.

The Board extended the period of grace for late payment penalties from 10 to 16 days for residential and genral service customers, but ruled that the areas of security deposits and credit checks were outside its jurisdiction.

* legal name: Hiram Walker-Consumers Home Ltd.

[Just prior to the commencement of the fiscal year Consumers' filed a new main rates application. The matter was heard and decided in the fall of 1980, with written reasons to follow. The Board approved a rate of return of 10.81 percent and rates which were expected to yield some \$17,252,000 in additional revenue. This resulted in an increase of about 16¢ per Mcf to residential customers and about 2.93¢ per Mcf to all other classes, effective December 1, 1980.]

A summary of rate increases approved for Consumers' residential customers during the fiscal year appears as part of Appendix 'A' to this Report. More detailed information, and rates for other classes of customers, are contained in the Company's rate schedules.

Inter-City Gas Corporation

Inter-City is a Manitoba company whose subsidiaries distribute gas in certain areas in Manitoba and which distributes gas in Minnesota and in a relatively small area of northwestern Ontario in and west of Fort Frances.

An interim rate increase of 2¢ per Mcf was granted to the Company's Ontario Division effective May 1, 1980, in recognition of a revenue deficiency.

Phase I of Inter-City's main application was heard in early March 1981. The main application remained pending at the end of the fiscal year.

Natural Resource Gas Limited

Natural Resource Gas (formerly The Medina Natural Gas Company Limited) is a small gas distributor serving Alymer and surrounding communities. It purchases gas from Union Gas Limited and local producers.

During the fiscal year the rate increases granted to Natural Resource Gas resulted from gas cost increases and the Federal natural gas excise tax.

Northern and Central Gas Corporation Limited

Northern and Central distributes gas in parts of northern and southeastern Ontario.

Following a Phase II decision, revised rate schedules effective September 1, 1980, were approved for Northern and Central. The Phase II decision resulted in rate adjustments to all classes, ranging from an increase of 19¢ per Mcf for residential customers to a decrease of 16.3¢ per Mcf for industrial and commercial interruptible customers.

Among other matters, the Board held that there were no unusual or special circumstances which would warrant the awarding of costs to any of the Phase II intervenors. As a result, counsel for the municipal

intervenors petitioned the Lieutenant Governor in Council for an award of costs. The petition was pending at the end of the fiscal year.

Northern and Central filed a new main application in October 1980. The matter will be heard early in the new fiscal year.

A summary of the rate increases approved for Northern and Central's residential customers during the fiscal year appears as part of Appendix 'A' to this Report. More detailed information, and rates for other classes of customers, are contained in the Company's rate schedules.

Tecumseh Gas Storage Limited

Tecumseh Gas is operated by Consumers' Gas and is owned jointly by Consumers' and Imperial Oil Limited. It does not distribute gas but operates underground gas storage facilities in Lambton County, Ontario.

The first main rate application for Tecumseh was heard during the fiscal year. The Board's decision will be rendered in the new fiscal year.

Union Gas Limited

Union distributes gas in most of southwestern Ontario.

[In its Phase I decision early in the fiscal year the Board approved for Union a rate of return of 10.79 per cent and found a revenue deficiency of \$17.7 million (of which \$14.1 million was already being recovered effective January 1, 1980). Rate increases to residential, general service and transportation customers were granted effective April 23, 1980, to permit Union to recover the balance of the revenue deficiency.

[The Board rendered its Phase II decision in December 1980. At the same time Union's rate base was increased by some \$6 million due to reconsideration of part of the Board's Phase I decision. New rates became effective at the beginning of the new fiscal year.

[During the fiscal year the Board also issued interim orders approving short-term storage rates applicable to storage for Consumers' Gas, and transportation rates for the Morpeth Line in the Township of Howard, County of Kent.]

[In June 1980 Union applied for increased rates to pass on to its customers the costs of synthetic natural gas purchased from Petrosar Limited, a refining and petrochemical company located in Sarnia. The hearing commenced in November 1980 and argument was heard on a motion by the Industrial Gas Users Association for production of certain particulars and documents. The

Board granted the application in part, and early in December heard argument on a further motion by IGUA that the Board disqualify itself from hearing Union's application because of apprehended bias. This motion was dismissed by the Board on December 16, 1980. The Board's decision was appealed by IGUA to the Divisional Court, and on April 1, 1981, the Court upheld the Board. The hearing of Union's application is expected to take place in the coming fiscal year.

A new main application was filed by Union in January 1981. It will be heard early in the new fiscal year.

[A summary of rate increases approved for Union's residential customers during the fiscal year appears as part of Appendix 'A' to this Report. More detailed information, and rates for other classes of customers, are contained in the Company's rate schedules.]

Wellandport Gas Limited

Wellandport Gas is a small gas distributor serving customers in the Townships of West Lincoln and Wainfleet, Regional Municipality of Niagara. It produces most of its own gas but also purchases gas from Union Gas Limited.

During the fiscal year the Board issued an interim order increasing Wellandport's rates by about \$1.20 per Mcf effective January 1, 1981, to all customers due to increased operating and gas purchase costs.

Pipeline Construction

In August 1980 the Board granted Union leave to construct a 16-kilometer gas transmission line within the Township of Tuckersmith, County of Huron.

In September 1980 Consumers' was granted leave to construct a 25-kilometer transmission line from the Company's existing facilities south of the Town of Campbellford to an industrial plant to the east of the Village of Havelock.

The other leave order granted during the fiscal year was to Northern and Central to construct a 22-kilometer transmission line to loop its existing transmission line from the TransCanada system to the City of Timmins.

Each leave order granted by the Board was subject to certain conditions relating primarily to construction and land restoration methods.

Near the end of the fiscal year the Board of its own motion heard and determined whether it should vary earlier leave to construct orders granted to Union Gas with respect to four looping sections of Union's existing

Dawn-Trafalgar transmission system. The motion was granted and the orders in question varied by adding a clause to the effect that, before any future orders are issued permitting construction of the four sections to commence, the Board would give consideration to environmental and related matters pertinent to the construction.

Pipeline Exemptions

Under section 38 of The Ontario Energy Board Act the Board may in special circumstances exempt a person from making formal application and obtaining from the Board an order for leave to construct a transmission line. Under that section two requests were dealt with during the fiscal year:

In May 1980 Union Gas was granted an exemption with respect to a 7-kilometer portion of the Dominion Line in the Township of Burford, County of Brant.

Later in the fiscal year Northern and Central was granted an exemption in connection with a 15-kilometer line from the City of Sudbury to the Town of Rayside Balfour.

Both exemption orders were subject to environmental and other conditions.

Gas Storage

During the fiscal year the Board approved the parties, term and storage of a proposed short-term gas storage agreement whereby Union would store gas for Consumers'. The Board also approved proposed amendments to the period and storage of an agreement whereby Union was providing storage service to The Public Utilities Commission of the City of Kingston.

Under section 21 of The Ontario Energy Board Act the Board has jurisdiction to determine compensation payable by a storage company to the owners of oil and gas and storage rights in a designated gas storage area. The first such application was filed with the Board in 1977, in respect of the Bentpath Pool in the Township of Dawn. Union Gas Limited is the storage company using the Bentpath Pool. A second application in respect of the Pool was filed in 1980, while the first was still in the pre-hearing stage. During the fiscal year the Board consolidated the two applications, dealt with further procedural matters and dismissed a motion by Union requesting the Board to state a case to the Divisional Court regarding the interpretation of The Expropriations Act. Early in the new fiscal year the Board intends to fix a date for the compensation hearing.

Certificates and Franchises

Under the provisions of The Municipal Franchises Act, there are two requirements which must be met by a gas utility before gas can be supplied to the residents of a municipality. The first of these is obtaining a certificate of public convenience and necessity, which is issued by the Board after a public hearing to determine that the project is feasible and that the applicant has the expertise and resources to assure reliable gas supply and service. The second requirement is Board approval of the proposed franchise agreement between the company and the municipality to be served, also granted after a public hearing in which the Board must satisfy itself that the terms and conditions of the agreement are fair and reasonable to both parties, and are therefore in the public interest.

During the fiscal year the Board granted eight such certificates:

- To Consumers' Gas, for part of the City of Mississauga and for the Township of Belmont and Methuen; and
- to Northern and Central Gas, for the Town of Rayside Balfour, the Village of Burk's Falls and the Townships of Caldwell, Ignace, Machar and Machin.

The Board in the fiscal year also approved 27 franchise agreements, as listed below. In the case of franchises for counties and regional municipalities, the Board approved terms and conditions which differ from those approved for other municipalities in that the former merely grant the right to place distribution pipes in highways under the jurisdiction of the county or regional municipality and do not grant the right to sell gas.

Consumers' Gas

*Township of Belmont and Methuen

Township of Essa

*Village of Havelock

Town of Kemptville

*County of Lanark

*United Counties of Leeds and Grenville

City of Mississauga

Township of Nottawasaga

Town of Orangeville

Township of Osgoode

City of Peterborough

*County of Peterborough

*United Counties of Prescott and Russell

Township of Russell

*municipalities franchised for the first time

*County of Simcoe

Township of Vespra

Township of Wainfleet

With respect to the City of Peterborough, in a decision dated June 26, 1979, the Board had prescribed certain terms and conditions upon which the franchise would be renewed. Peterborough appealed that decision to the Divisional Court, and on April 22, 1980, the Court dismissed the appeal, stating that the statute did not require that the terms and conditions decided upon by the Board be in the expiring agreement or in a new agreement, or that they be acceptable to either or both of the parties.

With respect to Mississauga, Council of the City had given two readings to identical by-laws granting distribution franchises for a certain area of Mississauga to both Union and Consumers'. Both distributors then applied to the Board for approval of the franchise terms and conditions. The Board heard the matters together and in its decision of July 17, 1980, ruled that the public interest would be better served by Consumers' being franchised in the area in question. (Consumers' was already franchised in the rest of Mississauga).

* municipalities franchised for the first time

Prior to the hearing, the Board had stated a case to the Divisional Court, and on May 13, 1980, the Court ruled that Consumers' did not hold an existing franchise in the area in question, and that the Board had jurisdiction to choose between the distributors.

Northern and Central Gas

Village of Brighton

*Village of Burk's Falls

*Township of Caldwell

Town of Englehart

*Township of Machar

*Town of Rayside Balfour

*Regional Municipality of Sudbury

Town of Valley East

Union Gas

City of Oakville

Township of Dawn.

In the case of Dawn Township, the Board prescribed the terms and conditions for renewal of the franchise. These were the same as had been prescribed for the Township of Moore in 1978.

* municipalities franchised for the first time

Accounting Orders

In the Board's Annual Report for fiscal 1979-80 it was noted that Union's accounting orders permitting the deferral of certain costs relating to the purchase of synthetic natural gas from Petrosar Limited were extended from time to time.

In April 1980 Union entered into an agreement to sell the gas to Transcontinental Gas Pipe Line Corporation of Houston, Texas. Consequently, further extensions of the accounting order were granted from time to time, the most recent having been issued on November 7, 1980.

Union obtained all requisite Canadian and U.S. approvals to export the gas and commenced delivery thereof on December 24, 1980.

ADVISORY HEARINGS

In addition to its regulatory functions, the Board has also during the fiscal year carried out its role as advisor to the Minister of Energy and to the Minister of Natural Resources, as follows:

Ontario Hydro

In May 1980, under section 37(a) of The Ontario Energy Board Act, the Minister of Energy forwarded to the Chairman of the Board a letter of reference requesting

the Board to investigate, examine and report on a proposal by Ontario Hydro to increase its rates effective January 1, 1981.

[The Board was asked in particular to examine and report on the manner in which Ontario Hydro had allocated bulk power costs and the extent to which it has kept its proposed bulk power cost increase as low as possible, consistent with the maintenance of its financial soundness, its ability to attract capital at favourable rates, and the reliability and quality of service to its customers. Ontario Hydro's proposal to the Minister of Energy forecasted a 1981 revenue requirement of \$2,617 million, which would require an average bulk power rate increase of 9.4 percent.

[The hearing was held in July and the Board made its report on August 27, 1980, recommending acceptance of the rates proposed by Ontario Hydro. The report also contained several recommendations.

Tecumseh Gas Storage Limited

In January 1981 the Company applied to the Minister of Natural Resources for permits to drill six wells in the Kimball-Colinville and Corunna designated gas storage areas in the Township of Moore. Upon reference from the Minister of Natural Resources under section 23 of The Ontario Energy Board Act, the Board held a hearing and

reported to the Minister on March 2, 1981, recommending the granting of the permits requested.

OTHER MATTERS

Hearing Procedures

With the increasing complexity of hearings combined with the objective of streamlining the regulatory process, the Board has over the past two years addressed itself on an ongoing basis to

- (a) the nature and scope of the material to be pre-filed in support of applications;
- (b) improving the quality of the hearing process;
and
- (c) the decision-writing process.

Further to comments under Natural Gas Rates (p. 3) and with reference to (a) above, standard lists of information required by the Board relative to rate and pipeline construction applications have been provided to each gas utility concerned, with the understanding that no case can be considered ready for hearing until the items listed have been filed and examined by the Board's staff. The policy is aimed at reducing the need for Board interrogatories (written questions to obtain clarification of portions of the applicant's pre-filed material) and, as part of that policy, applicants have

also been advised that the Board will not normally set a date for commencement of a hearing until its interrogatories, where these are necessary, have been satisfactorily answered. By this means it is expected that the time taken up at hearings will be considerably reduced.

With reference to (b) above, the practice of holding technical and procedural pre-hearing conferences has been firmly established, the former to identify and clarify the main issues in a given case, and the latter to arrange a basic schedule for the hearing and to deal with questions of procedure.

Members presiding at hearings are continuing to discourage repetition in cross-examination without in any way denying parties the right to make their representations. This, combined with the experience and cooperation of parties appearing before the Board, has had the effect of improving the efficiency of the hearing process.

Where it has been necessary to provide for written argument at the conclusion of a hearing, the Board has always recognized the importance of allowing sufficient time for preparation and has also acknowledged, where possible, other commitments which parties to the proceeding might have. More recently, however, a general policy of shortening the time allowed has been adopted

and has not produced any deterioration in either the quality or scope of argument filed.

The Board has also been reviewing the style and format of its written reasons for decisions.

Ontario Pipeline Coordination Committee

When Interprovincial Pipelines Limited applied to the National Energy Board in 1973 for leave to construct a crude oil pipeline from Sarnia to Montreal, an informal Committee was created within the Provincial Government so that a co-ordinated Provincial response with respect to specific environmental and agricultural concerns and other technical issues could be presented to the National Energy Board ("NEB") and the applicant during the construction process.

The Committee was reactivated in 1979 when the NEB requested Provincial involvement in a Windsor-Sarnia pipeline case under the jurisdiction of the NEB. The Committee is now involved with all pipeline construction in the Province, both under the jurisdiction of the NEB and this Board.

Because of the involvement of Board staff in pipeline construction matters under Board jurisdiction,

the Committee* is chaired by the Board's Special Projects Officer and is headquartered at its offices. Its location there, however, does not imply any direct relationship between the activities and recommendations of the Committee and the functions and obligations of Board members when dealing with applications. The Committee's involvement in the hearing process is an advisory one to applicants with respect to their pre-filed material, to the Board during and as part of the hearing process, and to the affected parties. The Committee also monitors pipeline construction.

The work of the Committee has been evident during the past year in connection with applications by Consumers' Gas, Northern and Central and Union Gas. The Committee has assisted the Board in determining the conditions which the applicants were to meet in the construction of the lines applied for.

In addition, during the fiscal year the Committee assisted the Ontario Ministry of Energy in the preparation of an intervention before the NEB in connection with an application by TransCanada PipeLines; has worked with TransCanada in route evaluation and

* The Committee is at present comprised of representatives from the Ministries of Agriculture & Food, Environment, Consumer & Commercial Relations and Natural Resources. Input is also provided on request by the Ministries of Culture & Recreation, Energy and Housing.

related environmental considerations regarding a number of planned pipelines in Ontario; and has monitored construction of one TransCanada project.

Pipeline Construction Guidelines

The Guidelines* grew out of the work of the Ontario Pipeline Coordination Committee, and these set out in detail a variety of conditions which parties applying for approval to build oil or gas pipelines may be expected to meet in connection with such projects.

The conditions fall generally into three categories: pre-hearing procedures concerning the appropriate material for examination by the Board and the interested parties to be notified of the application; the conditions to be complied with during actual construction; and restoration procedures when construction has been completed. In rendering its decisions on pipeline applications the Board may require an applicant to meet any or all of the conditions detailed in the Guidelines, or may impose other conditions as appropriate.

The Guidelines were first published by the Board in 1976, but during the past year they have undergone

* full title: Agricultural, Environmental and Resource Guidelines for the Construction and Operation of Pipelines in the Province of Ontario.

extensive revision and expansion by the Committee, and a new edition may be published in 1981.

COST OF ADMINISTRATION

The Board's total expenditures for the fiscal year are estimated at \$1,539,800 of which \$266,254 was recovered from applicants by way of fees and costs and paid into the Consolidated Revenue Fund.

NATURAL GAS RATE INCREASES GRANTED FOR TYPICAL RESIDENTIAL CUSTOMERS
FOR FISCAL YEAR APRIL 1, 1980 TO MARCH 31, 1981
(\$ per Mcf)

The Consumers' Gas Company		
	<u>Effective Date</u>	<u>Amount of Increase</u>
Gas Cost	April 4, 1980	\$.15
Revenue Requirement	April 4, 1980	.03
Gas Cost	October 1, 1980	.30
Revenue Requirement	December 1, 1980	.16
Federal Excise Tax	February 7, 1981	.31
Total Increases		<u>\$.95</u>
Percentage increase		29%
Base Rate Level at March 31, 1980 (1)		\$ 3.33
Current rate level at March 31, 1981 (1)		\$ 4.28

Notes:

- (1) Based on representative monthly residential consumption of 150 Mcf for heating and water heating.

NATURAL GAS RATE INCREASES GRANTED FOR TYPICAL RESIDENTIAL CUSTOMERS
 FOR FISCAL YEAR APRIL 1, 1980 TO MARCH 31, 1981
 (\$ per Mcf)

Northern and Central Gas Corporation Limited				
	Effective Date	Amount of Increase		
		Western Zone	Northern Zone	Eastern Zone
Revenue Requirement	September 1, 1980	.19	.19	.19
Gas Cost	September 1, 1980	.28	.28	.30
Federal Excise Tax	November 30, 1980	.29	.29	.30
Total Increases		\$.76	\$.76	\$.79
Percentage increase		25%	23%	23%
Base Rate Level at March 31, 1980 (1)		\$ 3.09	\$ 3.26	\$ 3.41
Current rate level at March 31, 1981 (1)		\$ 3.85	\$ 4.02	\$ 4.20
Representative annual residential consumption for heating and water heating		155.4 Mcf	149.7 Mcf	129.1 Mcf

Notes:

(1) Based on representative monthly residential consumption for heating and water heating as indicated.

NATURAL GAS RATE INCREASES GRANTED FOR TYPICAL RESIDENTIAL CUSTOMERS
FOR FISCAL YEAR APRIL 1, 1980 TO MARCH 31, 1981
(\$ per Mcf)

Union Gas Limited	
	Amount of Increase
Revenue Requirement	
Gas Cost	\$.05
Federal Excise Tax	.30
	.31
Total Increases	\$.66
Percentage increase	17%
Base Rate Level at March 31, 1980 (1)	\$ 3.85
Current rate level at March 31, 1981 (1)	\$ 4.51

Notes:

- (1) Based on representative monthly residential consumption of 125 Mcf for heating and water heating.

Summary of Proceedings Before The Board

A classification of the proceedings completed before the Board during the fiscal year ended March 31, 1981 is as follows:

	<u>Number of Hearings</u>
<u>Under The Ontario Energy Board Act</u>	
Rates and other charges for gas	34
Gas Storage	2
Leave to Construct Pipelines	3
References by Ministers	2
Miscellaneous	5

Under The Municipal Franchises Act

Certificates	8
Franchises	<u>27</u>
	81

The above proceedings have necessitated a total of 97 hearing days which were spent in the following manner:

	<u>Days</u>
Rates Cases	57
Ontario Hydro's Bulk Power Rates for 1981 . .	17
All Others	<u>23</u>
	97

BOARD PERSONNEL

As of March 31, 1981, the Board consisted of eight full-time Members and one Part-time Member, namely:

R. H. Clendining, P. Eng.	- Chairman
I. C. MacNabb, P. Eng.	- Vice Chairman
S. J. Wychowanec, Q.C.	- Vice Chairman
H. R. Chatterson, B. Comm.	- Member
J. C. Butler, P. Eng.	- Member
J. R. Dunn, P. Eng.	- Member
D. H. Thornton, Q.C.	- Member
D. M. Treadgold, Q.C.	- Member
R. R. Perdue	- Member (Part-time)

During the fiscal year under review two Members left the Board and two new Members were appointed by the Lieutenant Governor in Concil. Mr. I. Bruce MacOdrum resigned as a Board Member on April 9 to accept an Executive Director position at the Ontario Ministry of Energy. The appointment of Dr. Leonard Waverman as a Part-time Member expired on May 2, 1980. Mr. Donald H. Thornton, Q.C., was appointed a Member effective March 1, 1981, and Mr. Richard R. Perdue was appointed a Part-time Member from January 1981.

In addition, as of March 31, 1981, the staff of the Ontario Energy Board totalled 22 persons including senior staff as follows:

Director of Operations	- D. D. McLean
Board Secretary	- S.A.C. Thomas
Energy Returns Officer and Manager, Financial Analysis	- O. J. Cook
Board Solicitor	- L. Grahlm
Special Projects Officer	- D. R. Cochran
Manager, Engineering	- C. J. Mackie

The Board's offices are located on the 9th Floor,
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